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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE
ON THE PHILIPPINES.

OF THE

UNITED STATES SENATE,

COMPOSED OF

SENATORS ALLISON, BEVERIDGE, AND DUBOIS,

IN RELATION TO

A SYSTEM OF CURRENCY FOR THE PHILIPPINE ISLANDS.



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WASHINGTON, D. C., *February 13, 1902.*

The subcommittee met at 10.30 o'clock a. m.

Present: Senators Allison and Beveridge, of the subcommittee; also, Senators Aldrich, Lodge, and Teller.

STATEMENT OF A. M. TOWNSEND.

Senator ALLISON. Mr. Townsend, where is your residence?

Mr. TOWNSEND. New York City. My place of business is 50 Wall street.

Senator ALLISON. How long have you resided in New York?

Mr. TOWNSEND. Twenty-one years.

Senator ALLISON. Will you kindly state your occupation?

Mr. TOWNSEND. I am agent for the Hongkong and Shanghai Bank.

Senator ALLISON. Is that bank located where its name would indicate?

Mr. TOWNSEND. It has an agency in New York, and branches all through China, Japan, India, and the Straits, and in the Philippines at Manila and Iloilo.

Senator ALLISON. You also have a branch in New York?

Mr. TOWNSEND. Yes, sir; and in San Francisco.

Senator ALLISON. Are you familiar with the course of exchange as between the East and the West—that is, between Asia and our country and Europe?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Do you know anything of the present system of money in the Philippine Islands?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Describe it in a general way as you understand it to be.

Mr. TOWNSEND. I have a written statement regarding it, and, if agreeable to you, I should like to read it first, and then answer any questions that you gentlemen may like to ask.

Senator ALLISON. That is a very good plan, Mr. Beveridge.

Senator BEVERIDGE. Very good, indeed.

Senator ALLISON. Please read the statement.

Mr. TOWNSEND. I will now, with your permission, read a statement which I have prepared with a view of giving as much information as I can on this subject and in opening up a general discussion of it.

The different forms of currency, as applicable to the Philippines, that I wish to speak about are—

First. The present Philippine commercial currency of Mexican dollars.

Second. The American gold dollar.

Third. A currency similar to the Japanese yen, gold, 50 cents.

Fourth. The currency proposed in the Senate bill No. 2295, which is a gold currency supported by a silver coin worth about 40 cents, which it is proposed to legalize at two silver dollars to one gold dollar.

Fifth. A currency of a new American coin of the same weight and fineness as the Mexican dollar and the British silver dollar.

Although I am the representative of the largest bank engaged in the oriental business, I am not here in the interest of that bank, but merely appear to put at your disposal all the information I have likely to be useful to you when considering the very important matter of establishing a currency for the Philippines.

We must all recognize the importance at this stage of avoiding any mistakes, which might afterwards involve penalties, and establishing some system of currency on a tried and sound basis that can not lead to trouble. In my opinion there is only one such basis, and that is the "melting pot" or intrinsic value, and on this basis we are confined to a question of a straight gold or a straight silver currency. I am going to speak in favor of a straight, sound, full-weight silver dollar, the circulation of which is to be maintained and regulated by free coinage for anyone who will bring silver to the mint for coinage and pay the seigniorage, in the same manner as the mints are open in this country to the free coinage of gold.

And I will now make a few remarks on each of the systems that I have mentioned above.

First. The present currency of Mexican dollars.

The Mexican dollar is a cheaply and roughly made coin, varying within a radius of one-half to 1 per cent in weight, and in uncertain supply, and it is natural that not only some improved coin should be desired, and one that is procurable in any quantity required, but also that the United States, now that its flag flies in the Philippines, should think it desirable to establish a coin bearing an American design.

Second. The American gold dollar.

This and any other gold currency I consider entirely unsuitable to the Philippines, which is, at present, a poor country, whereas gold is an expensive currency and can only be held and used as money by rich countries.

I consider it unsuitable because it will be a tax and burden to the United States Government to keep up a gold reserve to meet all requirements at all times.

Because it will increase the cost of everything.

Because it will tend to restrict rather than to develop the export trade of the country.

Because it will not remedy the question of an exchange rate between the Philippines and America any more than the gold currencies have prevented a fluctuating exchange between Australia and England, or between New York and London. The fluctuations there are not nearly so great as might occur between a silver and gold country, but still have a range of about $1\frac{1}{2}$ per cent. as exchange must necessarily fluctuate even between gold-using countries to the extent of the cost of

moving the bullion, including interest, freight, insurance, etc., besides the effect due to local scarcity or oversupply.

Third. A currency similar to the Japanese gold yen=gold, 50 cents.

The objection to this is that it is a gold currency, and, therefore, unsuitable for the reasons given above.

Fourth. The currency proposed in Senate bill No. 2295. All the above objections against gold I would apply to this plan, which is the dual currency proposed in the Senate bill No. 2295, because the currency therein provided is virtually a gold currency. The silver coin proposed would merely circulate as a token currency, and its value would depend upon its being redeemable in gold, and it is uncertain as to how the gold supply would be maintained and which dollar would be the basis of value, the gold or silver.

The silver coin proposed would, in my opinion, very soon circulate not as a dollar, but as one-half a gold dollar, and in addition to the objections applying to this proposed currency I would mention the following:

So long as the proposed silver dollar is intrinsically below the value of gold 50 cents, it would be likely to be changed for gold for export.

Should the intrinsic value of the silver dollar ever rise above the value of the gold dollar 50 cents, gold would flow into the country and silver would be exported.

No such dual system will work; it would mean trouble ahead.

The proposed silver dollar could not, of course, so long as worth less than 50 cents gold, pay any foreign debts and would have to be changed at the Treasury for gold and the gold exported, and if at any time the reserves were low the silver would be rushed for redemption for the purpose of getting the gold and hoarding it while it could be got, and so it would become an everlasting source of embarrassment and expense to the Treasury.

You could not persuade a native to whom you now owed \$10 that \$5 gold would be just as good to him; and forcing on the country a gold currency, either in this dual system or as a straight gold currency, would only tend to breed discontent or double the cost of wages and products.

No bank could afford to import United States gold dollars unless they were worth $1\frac{1}{2}$ per cent premium when laid down at Manila.

I now come to No. 5. That is a straight, full-weight American silver dollar, of the same weight and fineness as the Mexican dollar and the British silver dollar, to be coined in any quantity for anybody who would send the silver in and pay the cost of coinage, and which money, when found to be in excess in the Philippines, could be exported and used in Hongkong, in China, and in the Straits on the same footing as the British dollar and the Mexican dollar now circulating in those parts.

The outside circulation of the American full-weight dollar could only be a distinct gain and advantage to the Philippine currency and to American interests and prestige generally.

I advocate this currency because it coincides with the existing currency of the Philippines and all neighboring countries using silver, and the continued use of it will coincide with the interests and prejudices of the natives, and it best suits and is supported by the commercial and financial interests already established in the islands; because

it can always be used to pay the debts outside the country when merchandise is lacking and the balance of trade prevails against the country, and can come back again or fresh silver be imported and coined whenever needed, so automatically regulating the supply of money.

The objections to such a currency lie chiefly in the fluctuating value of silver as compared with gold; but these fluctuations are based on the broad basis of silver values the world around and are now very easily dealt with in all mercantile matters.

A merchant now, when he settles the prices either for buying or selling merchandise in a silver country, at the same time settles with the bank his rate of exchange. There is now no difficulty in doing this either for present or future transactions, and in this way all risk of fluctuations in value of a silver currency is eliminated.

And in the same simple way arrangements could be made whereby Government contracts and payments to officials could also be made payable either in gold, if payment is made in the United States, or in the currency of the Philippines, if made there in silver, at a fixed rate of exchange, which rate might be settled officially every three months. Such an arrangement I am sure could be made to meet the convenience and advantage of all concerned.

I will now make a few remarks on the British dollar, Mexican, Japan, the Indian currency, and note circulation for the Philippines.

The British dollar is a coin of 416 grains 900 fine and can be coined for anybody who sends in the silver to the Bombay mint at a cost of 1 per cent. One hundred and ten million dollars have been coined and are in circulation in Singapore, Hongkong, the south of China, and since the occupation of Peking also circulate in the north of China.

The coin was needed to help out the deficient supply of Mexican dollars.

An American similar coin would be well received in these same districts when it was found necessary to export bullion from the Philippines.

MEXICO.

Here we have a country using silver and finding great prosperity directly traceable to that currency. Mexico is able to pay all its foreign debts by means of its produce exported, and to pile up wealth besides to such an extent that Mexico may one day be rich enough to claim a right to use a gold currency.

I need not remind you that a country is really wealthy rather in its products than in its cash—sending away cash is a poor way for a country to settle its accounts. Products, the results of its industries, pay the balance much better, and the currency that will do the most for the industries and products of the Philippines is the best currency for those islands and for this Government.

European governments in their experience with Eastern colonies have never attempted to force a gold currency on an oriental country using silver.

In India, after fifty years of established government, the English Government has lately established and fairly well maintained an exchange value of one-fourth for the rupee, which rupee is to-day intrinsically worth about 9½d., or 40 per cent less than its nominal value.

I do not know that this steady value of exchange has induced much more capital to flow to India, because the fictitious value has been maintained by artificial means, such as shutting up the mints, stopping free coinage, imposing a duty on imports of silver, and making the money scarce and interest high; and there must always remain a doubt whether such a system can be considered permanent, and I do not find that establishing a gold currency in an oriental country does act as any special inducement to attract foreign capital.

This steady exchange in India has been of a certain nominal advantage in dealing with the enormous Government accounts and loans opened between India and England, but it is an open question if India would not have prospered more with a natural supply of money and low interest and a freer export trade, and if it so prospered the Government would not have been a loser.

Then again the disparity between the artificial value and the melting value of the rupee opens the door to the extensive coinage of spurious rupees of full weight and value undistinguishable from the Government issue, and this opportunity is said to be very largely availed of.

Under these circumstances I feel justified in saying that the Indian government experiment is a doubtful success, and it can not be called a gold currency, for though the government will give 15 rupees for £1 sterling, it will not give £1 sterling for 15 rupees; and the gold fund that the Indian government accumulated has, to a large extent, been sold since to buy silver for coinage into rupees, to meet the urgent demand for more currency such as the natives require, and India remains a silver country.

JAPAN.

Here we have a gold currency consisting of a gold yen, worth about 50 cents of the United States money. This currency was instituted a few years ago with a fund of about 110,000,000 yen in gold, and all the silver currency was sold excepting the small token money, and the country now rests on a gold and paper currency. Experience has shown a continuous drain of gold from the treasury, creating a fear at times that the redemption power of the treasury would break down.

The gold reserve has now fallen to 80,000,000 yen, and at one time a discount on the Government paper was greatly feared, if not actually quoted.

Japan, having no material gold income, the treasury is confronted with the problem how to replenish and keep up the gold reserves, and in the meantime a rise in wages, expenses of living, and products is noticeable, and the fact of the country having adopted a gold standard has been no special inducement for foreign capital to invest there.

As to a note issue for the Philippines, a paper currency might be desirable, but it would be difficult to arrange for the safe issue thereof of bank notes. No bank there would care to put up 2 per cent Government bonds or keep cash against its issue of notes, as it would not pay.

It would hardly seem safe to allow banks to issue notes against their own assets, because their assets might be either small or of unrealizable character, so far as the Philippines are concerned.

Any bank doing business there would probably have branches in China and Japan, and elsewhere, and the larger part of its assets would

be in those foreign countries where they would stand against local liabilities.

Under these circumstances, if the paper currency was advocated, it would seem desirable that it should be a government issue.

Senator ALDRICH. Do you mean the government of the Philippine Islands or the Government of the United States?

Mr. TOWNSEND. Either one or the other.

Senator ALDRICH. I did not know which.

Mr. TOWNSEND. The local government would be satisfactory.

A note issue is not very profitable or desirable as a banking proposition, and as it is a public advantage and convenience the government may finally be asked to stand the charge of storing the bullion and maintaining a government note issue against actual coin or bullion held in the government vaults.

In conclusion, I would say a gold and silver currency can not be run together at a parity—the one which is most valuable will leave the country. This is the well-known Gresham law, and plenty of examples are known that prove how exacting it is in working; and, further than that, I think if an oriental country of weaker financial standing, as compared with western countries, tries to establish a gold basis, the gold they have will naturally gravitate and be drawn to the richer gold-using countries, and so oriental countries are securer and more likely to be prosperous in these times on the silver basis until they have grown financially strong.

Of course, I know that this rich and great country can easily maintain a gold basis in the Philippines if it chooses, but I am doubtful whether it is wise, suitable, and most advantageous for the development of the country, and I think not.

The compromise measure proposed in your bill departs from the narrow path of soundness, and means trouble ahead. A gold currency is expensive, hard to maintain, and against the prejudices and interests of the natives, and would rather retard than develop their export trade.

A straight silver dollar is merely continuing the present currency and is best for the country and for trade.

When the Philippines become great and rich under your Government, then will be the time to consider whether matters can be improved by changing the silver currency to the gold, and this seems to me should be the crowning feature and not the foundation of the American possession.

Senator ALLISON. The substance of your paper just read means that in your judgment it is inexpedient now to establish the gold standard in the Philippines?

Mr. TOWNSEND. Yes.

Senator ALLISON. That instead we should continue substantially the present standard in the Philippines, coining a peso or dollar having the same weight and fineness of the British dollar and the Mexican dollar?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. But making a better coin than the Mexican dollar?

Mr. TOWNSEND. Yes, sir; as good as the British dollar.

Senator ALLISON. The British dollar is a symmetrical coin of uniform value.

Mr. TOWNSEND. It can be taken by count anywhere, and the Mexican dollar can not be taken by count unless it is newly minted. In China it goes by weight.

Senator ALDRICH. On account of abrasion?

Mr. TOWNSEND. Yes, sir; and its uncertain make. It is the cheapest silver coin in the world. I believe it costs only one-half of 1 per cent, while the British dollar costs 1 per cent, and some mints would give an estimate of $1\frac{1}{2}$ per cent for coining such a coin as the British dollar. The Mexican dollar, being so cheap, has always had the China market, because it was the cheapest coin they could get; but it is very poorly made and is subject to mutilation, and is sometimes cracked. It varies a little in weight. The Chinese take it and put it in the scales. It does not matter whether the coin is broken or chipped. They put them into the scales, and they take 717 taels weight as equal to a thousand dollars Mexican. The British dollar goes by count.

Senator ALDRICH. In China?

Mr. TOWNSEND. In China.

Senator ALLISON. And in the Straits Settlements?

Mr. TOWNSEND. Yes, sir. The Mexican dollar also goes by count if it has been newly minted and examined—shroffed, i. e., each coin carefully examined by a Chinese expert called a “shroff.”

Senator BEVERIDGE. That is true of the British dollar? They ring it?

Mr. TOWNSEND. I do not think that a defective dollar would be issued by the Bombay mint. The minting is all done there. Of course the Chinese have a system of little squeezes. They profess to throw out a certain number of dollars. But I do not believe there is any need to shroff the British dollar.

Senator ALLISON. Are the Philippine people familiar with the British dollar so that it circulates in the Philippines?

Mr. TOWNSEND. No, sir.

Senator ALLISON. They are familiar with the Mexican dollar, of course?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. Have you the figures of the British coinage?

Mr. TOWNSEND. The Bombay mint has coined so far \$110,000,000.

Senator BEVERIDGE. Which has been absorbed in oriental countries?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. It is in circulation in Hongkong and in various parts of China?

Mr. TOWNSEND. In the Straits and Hongkong and in the south of China, and recently, since the trouble in the north of China, it has been sent up there and it is used there now very generally.

The money of China generally is the “shoe” of silver, called sycee, worth about fifty United States dollars, and it is so awkward, rough, and primitive that there is no doubt, if a coin could be accepted for circulation in China, silver would be more largely used than at present, and the Chinese might start a mint—

Senator BEVERIDGE. They have eleven different dollars now which they are themselves coining, and they are uncertain in price.

Mr. TOWNSEND. They have coined some in the Canton mint.

Senator BEVERIDGE. And they are uncertain in price.

Mr. TOWNSEND. To illustrate how unsuitable the “shoe” of sycee is for use as money, I may state that, although the “shoe” is worth \$50, after the siege of Peking the people who looted silver actually sold these “shoes” of sycee for \$10 apiece, not knowing their value.

Senator ALDRICH. I suppose there are really no statistics as to the amount of silver in use in China?

MR. TOWNSEND. No; I think that would be very difficult to get at.

SENATOR BEVERIDGE. There are absolutely none, and there is no system by which it could be got at. Is it not true that each province coins its own money?

MR. TOWNSEND. It has its own system of tael value. Every province differs.

SENATOR BEVERIDGE. Is it not true that the various provinces are now coining what they themselves call dollars, and that there are eleven of them?

MR. TOWNSEND. I do not think there are Chinese dollars coined to any extent.

SENATOR BEVERIDGE. Oh, yes.

MR. TOWNSEND. They are coining subsidiary coin, such as 10-cent pieces.

SENATOR BEVERIDGE. I refer to dollars, with their various provincial devices upon them in imitation of the Mexican dollar. There are about eleven of them at the present time. I have myself seen several of them.

SENATOR ALDRICH. What is the weight?

SENATOR BEVERIDGE. The weight and fineness vary, and that makes them unacceptable outside of the immediate neighborhood of the mint and not very acceptable there. But very great efforts have been made in that direction in the last two or three years.

MR. TOWNSEND. But they are not used in the foreign banking currency or in the commercial currency.

SENATOR ALLISON. How does your bank in Shanghai keep its accounts?

MR. TOWNSEND. In Shanghai taels; and we also keep separate accounts for Mexican dollars. Mexican dollars are used among the retail stores in Shanghai and for personal expenses, but the commercial and banking currency is the Shanghai tael weight of silver.

SENATOR ALLISON. It is all weighed?

MR. TOWNSEND. Yes, sir.

SENATOR ALLISON. And in Hongkong?

MR. TOWNSEND. There the currency is the Mexican dollar and the British dollar.

SENATOR ALLISON. Do you keep your accounts in silver dollars in Hongkong?

MR. TOWNSEND. Yes, sir; we also used the Japanese silver yen in Hongkong until it was demonitized.

SENATOR ALDRICH. What became of the silver yen?

MR. TOWNSEND. The Japanese Government sold them.

SENATOR ALDRICH. They were melted up?

MR. TOWNSEND. Yes, sir.

SENATOR ALLISON. They have only subsidiary coins in silver?

MR. TOWNSEND. Only subsidiary coins in silver. Gold is the basis of their currency system.

SENATOR ALDRICH. Paper?

MR. TOWNSEND. Gold, supported by paper.

SENATOR ALLISON. You mean the paper is redeemable in gold?

MR. TOWNSEND. The paper is redeemable in gold.

SENATOR ALLISON. The Government paper and bank paper as well?

SENATOR ALDRICH. On the new basis?

MR. TOWNSEND. Yes, sir. The Government paper and the bank paper are on a basis something like the American system.

Senator ALDRICH. Does not the Spanish-Filipino bank issue paper?

Mr. TOWNSEND. It has a right to issue, but I do not think it is now availed of to a very large extent.

Senator ALLISON. A million eight hundred thousand dollars, I believe the report says.

Senator ALDRICH. Does your bank issue notes?

Mr. TOWNSEND. Not in the Philippines. We do in Hongkong.

Senator ALDRICH. That is what I meant.

Senator ALLISON. Where do the notes go?

Mr. TOWNSEND. They are used in Hongkong and Shanghai and the Straits to a certain extent. They do not go into the interior.

Senator ALDRICH. Is there any limitation on the power to issue?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. What kind of a charter do you operate under?

Mr. TOWNSEND. A British charter. We can issue notes to the extent of our capital, \$10,000,000, and our issue is divided between Hongkong, Singapore, and Shanghai, and we have to keep a cash reserve equal to one-third of the notes issued, and beyond that we issue against the deposit of actual dollars in the Hongkong government treasury.

Senator ALDRICH. In the same way that the Bank of England does?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. You issue paper equivalent to the British dollar?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. And redeemable in the British dollar?

Mr. TOWNSEND. Redeemable in the currency of Hongkong, which is the Mexican dollar and the British dollar.

Senator ALDRICH. Are the denominations in taels, or how?

Mr. TOWNSEND. They are in dollars in Hongking. We issue tael notes in Shanghai.

Senator ALLISON. How are your accounts kept in the Philippines?

Mr. TOWNSEND. They are kept in the Mexican dollar, and since the army of occupation we have kept separate accounts in American gold dollars. The American gold dollar is used by the officials there almost exclusively, and so we have the old banking currency of the Mexican dollar there today, and we have the official currency of the American gold dollar, although that gold dollar has never been legally established as the currency. So we have two currencies.

Senator ALLISON. Established by custom.

Mr. TOWNSEND. Established by custom. You have the two currencies there now, and the Government officials are trying to make these currencies work in unison. They established a ratio of 2 to 1. The market ratio fell to about 2.12 to 1, and the consequence was that the Philippines became flooded with Mexican dollars to buy the gold at those prices and send it to America or wherever it could be sold at the greatest profit. The authorities stood that as long as they could, and then changed the ratio to 2.10 to 1. But even that rate gives a profit, and wherever there is a profit it is just like water running down hill. The gold will go. If you can buy it cheaply with silver, the silver will be sent there to buy the gold, and the gold will be sent to where it is worth more.

Senator ALLISON. Suppose we establish a scheme whereby the silver dollar, the peso, is worth, say, 40 gold cents. Now, with the establishment of the gold standard, that of course will be exchangeable then at 50 cents.

Mr. TOWNSEND. It will be redeemable.

Senator ALLISON. Redeemable at 50 cents?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Would the effect of that be to send the overvalued dollar to the place of redemption?

Mr. TOWNSEND. It would naturally have that effect.

Senator ALLISON. For the purpose of getting the gold?

Mr. TOWNSEND. At certain times and in certain conditions of trade the Philippines would have to export a certain amount of bullion in the absence of merchandise, and the 40-cent silver dollar could not be sent away, because it is worth 50 cents in Manila and worth only 40 cents outside. So it could not be sent away. If you have the silver dollar, you would have to take it and get the more valuable gold, and send the gold away, and the difficulty would be for the Treasury to keep up the redemption fund.

Senator BEVERIDGE. So you figure that there would be a constant loss to the Government of 10 cents on each redemption?

Mr. TOWNSEND. There would not be a loss, as the Government would not issue the silver coin for less than 50 cents, and they would give 50 cents for it. The loss to the Government would be in maintaining the gold reserve. The tendency would be all the time to redeem the silver dollars and to send away the gold which was received for them, and the expense to the Government would be in continually keeping up that reserve. The laying down of the American gold dollar in the Philippines to keep up that reserve means a cost of freight, insurance, and interest, which I calculate amounts to about 1½ per cent, and the course would be for the Government continually at its own expense to send gold there, and it would be exported for the benefit of the exporter.

Senator ALLISON. Suppose we had a constant supply of products created in the Philippine Islands sufficient to meet the payments made in the West—that is, made in our country and Europe—would there still be an export of gold?

Mr. TOWNSEND. I doubt if there would be.

Senator ALLISON. Would there be a drain upon the reserve?

Mr. TOWNSEND. Gold does leave countries irrespective of trade balances, but if the trade balance was favorable to Manila, the tendency would be to ship produce instead of money. But it is true that silver has been imported into China during the time when the balance of trade was against China, and gold is now being exported from America to England when the trade balance appears to be in favor of America, and I think it is true that gold will go where it is wanted most.

Senator ALLISON. Is that true in India? There is always or nearly always a balance of trade in favor of India?

Mr. TOWNSEND. The Indian government accumulated a large reserve of gold, but they found the demand for it so strong in London that they had to sell it and buy silver.

Senator ALLISON. Do they not have a large reserve of gold now?

Mr. TOWNSEND. They sold a large part of it last year.

Senator TELLER. Almost all of it. It has gone back to England.

Senator LODGE. It was profitable to export it.

Senator TELLER. Certainly.

Senator ALLISON. But they were at that time exporting products in excess of imports.

Senator TELLER. Certainly.

Mr. TOWNSEND. Yes.

Senator TELLER. But England needed the gold and needed it badly, and so it came.

Mr. TOWNSEND. It seems to me that the country which can give the strongest pull on gold gets it.

Senator LODGE. As I understand from what you have read, you do not approve of the English system in India of putting an artificial value on the silver?

Mr. TOWNSEND. No. I think it is extremely un-English and it is unsound, and the unsoundness of the thing always involves a sense of insecurity and nonpermanency.

Senator ALDRICH. I imagine the Government of Great Britain would not have adopted that policy if it had not had at the time an immense quantity of silver rupees, which were out of joint with gold.

Mr. TOWNSEND. It was a governmental difficulty, I think.

Senator ALDRICH. That is what I mean.

Mr. TOWNSEND. It is the governmental problem which I think has been at the bottom of the proposal to establish the gold currency in the Philippines. I would rather look to the question of what is best for the development of the trade of the people of the place, and I am sure the Government will find they can easily get their accounts settled if the trade is prosperous.

Senator LODGE. Your idea in the Philippines is the circulation of silver coin at its true value?

Mr. TOWNSEND. At its true value, so that it can go there when it is wanted and be exported and pay foreign debts when it is not wanted.

Senator LODGE. Put it squarely on the silver standard?

Mr. TOWNSEND. Squarely on the silver standard. It makes no change; it is only carrying on the existing system of currency—

Senator LODGE. I understand that.

Senator BEVERIDGE. There is in China and other oriental countries a sort of illimitable absorption of silver. Now, if a coin once becomes well known there, will not its use increase?

Mr. TOWNSEND. If it is on the basis of its true "melting-pot" value, it will always find its level, but if it is on an artificial value you are confronted with a difficult problem.

Senator ALDRICH. That is not what Mr. Beveridge asked you. You did not understand the question. He asked you if you think this coin, if once established in China and in use there, would not be used in constantly increasing numbers in China.

Senator BEVERIDGE. Mr. Townsend has said that the English Government has issued a hundred and ten million British dollars, which had been absorbed because the people became familiar with them, and put their trust and confidence in them, and needed them, and they could be used by count instead of by weight. So their use spread. Do you expect that such a use as that would also be true of the American coin?

Mr. TOWNSEND. Yes, sir.

Senator BEVERIDGE. And therefore a sort of automatic relationship with the whole commercial business of the East would be established, of which the Philippines would be a part?

Mr. TOWNSEND. Yes, sir; nothing would be easier than to establish at once its legal status in Hongkong. The local government in Hong-

kong would order that the local currency, which is now represented by the Mexican and the British dollars, should also include the American silver dollar of the same weight. That would be done by legislation at once. Then, being established in Hongkong, it would naturally circulate in Canton and the Straits, the Straits being also under the British Government and Canton being so closely allied with Hongkong that the currency of Canton is the same as that of Hongkong. Then naturally it spreads up the coast.

Senator ALLISON. What is the superscription on the British dollar? Do they call it a British dollar or a Bombay dollar?

Mr. TOWNSEND. It is called the British dollar. I think it has "British dollar" on one side and on the other side it has a Chinese device, a dragon or something of that sort.

Senator ALLISON. Suppose we should adopt your suggestion, should we call this a Philippine dollar?

Mr. TOWNSEND. Yes; call it an oriental or Philippine dollar.

Senator LODGE. Call it a peso.

Senator ALDRICH. Call it a dollar.

Senator BEVERIDGE. If you coin it as a peso, then it would be understood only by the people of the Philippine Islands, who also understand the dollar, whereas if you coin it as a dollar, it would be understood by the people of the Philippine Islands and also by the people of the Orient, and that would increase its use very materially.

Mr. TOWNSEND. I would call it an oriental dollar. I do not know that any special Philippine design would be absolutely detrimental to its circulation in China. I say that because I have in my mind the Japanese yen, which was a distinctly Japanese coin called the yen, and not a dollar, and it passed in Hongkong and the south of China.

Senator BEVERIDGE. It should be remembered, too, as to the yen, that the Japanese devices are precisely what the Chinese are. Their characters are the same. It had on its face a mark of familiarity.

Mr. TOWNSEND. I think you ought to bear in mind in coining such a dollar the fact that such a coin would circulate in China as well as in the Philippine Islands.

Senator ALLISON. That is, it would be interchangeable. Sometimes it would go to China and sometimes it would come back to the Philippines.

Mr. TOWNSEND. Yes; you once did coin a silver dollar—the trade dollar—but the mistake was made of making it too heavy.

Senator BEVERIDGE. If a device could be put upon the coin which people have seen and identified, for instance, the flag, or anything of that kind, it would give it a standing.

Senator LODGE. The lettering on the British dollar is not Chinese.

Senator BEVERIDGE. It is on one side. I remember it now.

Mr. TOWNSEND. The American dollar should have an American design on one side and an oriental design on the other.

Senator ALDRICH. Is the British dollar a legal tender in the Straits Settlements and Hongkong?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. But nowhere else?

Mr. TOWNSEND. It passes in south China.

Senator ALDRICH. But it is not made legal tender there by the Government?

Mr. TOWNSEND. No, sir.

Senator ALDRICH. It is only legal tender in Hongkong and the Straits.

Senator BEVERIDGE. It is a tender in China.

Senator ALDRICH. I mean by law.

Senator BEVERIDGE. There is no such thing as legal tender in China.

Senator TELLER. Some years ago, probably a dozen or more, Mexico changed her superscription on the dollar, and where she had the cactus and the snake she put a balance. The new dollars would not go over there. The people would not take them, and Mexico had to go back to the cactus and the snake.

Senator BEVERIDGE. That is a peculiarity of the Chinese character, which is illustrated by a very singular incident. It bears out what you say, Senator. There was a firm which established, at a good deal of pains, quite a sale of condensed milk in Shanghai. They had a peculiar label. The firm changed the label and in thirty days lost all their trade. They had to put back the old label in order to get back the trade.

Senator ALLISON. Do they not need a lot of small coins, subsidiary coins, in all those oriental countries?

Mr. TOWNSEND. In Shanghai, and where foreigners have developed matters, and they have progressed in this direction, they have come to use small silver coins, but in China itself they do not use small silver. They use the sycee, and if it is anything smaller, it is the copper cash, which is the worst possible currency they could have. There are supposed to be a thousand cash to a tael, but the coinage has been so debased and so varied, every city coining its copper cash, it is almost impossible to say what is the value of those copper coins.

Senator ALLISON. How do you handle money in China?

Mr. TOWNSEND. It is all done by the Chinese staff, who are experts in the matter. In large payments they bring a big box containing 60 of these "shoes" of sycee. In the box there is a paper containing a statement, "Shoe No. 1, so much; taels, so much," and each piece is stamped with the official stamp of the assay office, showing what its weight is. The paper says "shoe No. 1 is worth, say, taels 60.50; shoe No. 2, taels 59.25," and so on. The whole box is worth, say, a thousand taels, and they take that paper and they examine each shoe and see that the mark or stamp is all right.

Senator ALLISON. Now what do they do with that?

Mr. TOWNSEND. They pass it on.

Senator ALLISON. Give it to somebody else?

Mr. TOWNSEND. Yes, sir; in the same way. It is all stamped. Each tael in each city is different. If you send a hundred thousand taels from Shanghai to Hankow, you have to hire about a hundred wheelbarrows, put those boxes on, and the long procession goes into the city, about a mile and a half off, and then they are all reassayed and restamped with the Hankow value on them.

Senator BEVERIDGE. Then, when you have reduced it to the tael, the tael is constantly fluctuating?

Mr. TOWNSEND. Yes, sir; and that leaves rather a fine field for the circulation of a good silver dollar.

Senator ALLISON. How do you keep the copper cash in your bank?

Mr. TOWNSEND. We have to keep a certain supply to make change. The Chinese manage all that.

Senator TELLER. Chinese clerks?

Mr. TOWNSEND. Yes, sir.

Senator LODGE. We are told that in the Philippines it is very important to have some very small coins of silver, owing to the small payments that are necessary to be made.

Mr. TOWNSEND. They do not use the copper cash in the Philippines, but small silver and copper coins.

Senator LODGE. The centavo.

Senator TELLER. Which is a great big copper cent.

Senator LODGE. There has to be a fractional currency in large amounts.

Senator ALLISON. It has been suggested that there should be a copper coin for the Philippines equivalent to what would be a half cent in this country.

Mr. TOWNSEND. Of course, you can do what you like about your subsidiary coinage. It is merely token money and it can be made from anything you like, copper, or bronze or silver. The intrinsic value of the subsidiary coinage is of no importance, but the basis of your real currency should be the melting pot.

Senator ALLISON. Suppose, for example, we should authorize the coinage of a silver dollar equivalent to the British dollar and to the Mexican dollar, of the same number of grains of silver, making it 900 fine, would you think well of it?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Would you have a subsidiary coinage of half dollars and quarter dollars?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Making them less fine? You would debase them?

Mr. TOWNSEND. They would be less fine, as they would never be meant for export.

Senator BEVERIDGE. How would you prevent their being exported? Would you only issue enough for the use of the islands? I do not see how you would stop the export operation with a half-dollar or a quarter-dollar.

Mr. TOWNSEND. They would not be exported, as you would have to give a dollar for four quarters, and when you got to Hongkong the four quarters, for which you had given one hundred cents, would be worth only fifty cents.

Senator ALDRICH. Therefore they would go back to the Philippines and stay there.

Mr. TOWNSEND. You can not get the face value of American quarters in London or Canada. They would say "they are worth a hundred cents in the United States, but not here."

Senator BEVERIDGE. As a matter of fact we can go to Canada with them.

Senator TELLER. That is because Canada is so close.

Senator ALLISON. Yes, and the Canadians send them back.

Mr. TOWNSEND. They can send them back easily. They have not full intrinsic value there, however.

Senator ALLISON. Where would you coin these dollars if you had your way about it—in Manila?

Mr. TOWNSEND. I think it would be better to coin them in Manila, if you could establish a good mint there.

Senator ALDRICH. They have a mint there already, I believe. What is its condition?

Mr. TOWNSEND. I believe it is in very bad order.

Senator ALDRICH. Probably it has not the requisite machinery for fine coinage.

Mr. TOWNSEND. No, sir.

Senator ALDRICH. I want to ask you a question or two, if the committee will pardon me, for I am rather an interloper here—

Senator LODGE. Not at all.

Senator ALDRICH. I desire to ask a few questions about the paper currency of the East, because, after all, I think that is one of the most important things we have to deal with. Now, take your own bank. What amount of notes are you authorized to issue? Is there any limit?

Mr. TOWNSEND. We are limited to the amount of our capital.

Senator BEVERIDGE. Your capital is \$10,000,000?

Mr. TOWNSEND. Ten million dollars. I think our issue in Hongkong is about \$3,000,000, and the balance is issued at Singapore and Shanghai, and then beyond that we have to put up coin for all we issue, and we do put up a very large amount, because our notes are in great demand.

Senator ALDRICH. Do they circulate outside?

Mr. TOWNSEND. They circulate in Canton. If people want to send a large amount of money to Canton, instead of shipping silver, they get our notes.

Senator BEVERIDGE. They circulate in Shanghai?

Mr. TOWNSEND. There we issue notes in taels and Mexican dollars.

Senator ALLISON. And the notes are payable in Mexican dollars?

Mr. TOWNSEND. In Hongkong in Mexican dollars. In Shanghai in both taels and Mexican dollars.

Senator BEVERIDGE. Why is it that you discount your Hongkong notes at your Shanghai branch?

Mr. TOWNSEND. It is done for the same reason that a note payable in Canada is discounted in New York or a note payable in New York is discounted in Canada.

Senator BEVERIDGE. But one of your notes which I receive at a store in Hongkong will not be received at its full value by your bank in Shanghai. It will be accepted at a discount, measured by the estimated cost of transporting just that amount of silver, and nothing more, between those two ports?

Mr. TOWNSEND. Yes, sir; that is what I have pointed out, that even if you establish the American gold dollar in Manila you can not expect to maintain the parity with San Francisco, because it costs money in freight, interest, and insurance to export that money there. Now, if you get a Hongkong note, it is made payable only at the Hongkong office, and if you present it at Shanghai, somebody has to send it down to Hongkong and collect it.

Senator BEVERIDGE. You make a charge—at least, I was charged that amount—on one of your notes between Pekin and Shanghai of the estimated cost of transporting between those ports just that amount of silver and no more. Of course such a thing, as a matter of fact, is never done. You settle in balances.

Senator TELLER. Do you mean they discounted their note at 5 per cent?

Mr. TOWNSEND. Not 5 per cent.

Senator BEVERIDGE. Whatever it was.

Mr. TOWNSEND. They made a small charge for redeeming it.

Senator BEVERIDGE. It was explained to me to be the estimated cost of shipping just that much silver called for by the notes between those two ports. Why can there not be an agreement among the bankers of the far East, since the profit thus earned is a sort of piratical profit—meaning no offense—

Senator ALDRICH. It is a banking profit.

Senator BEVERIDGE. Why can not they arrange that the notes shall be redeemed at par at all their branches? That would supply a currency which would at once sustain itself automatically.

Mr. TOWNSEND. I think, Senator Beveridge, you are perfectly right, and I think it ought to be done, but I suppose it is a practice of bankers always to get some little profit on anything they do. You can not demand the redemption of a Shanghai note in the Peking office, but I think as a matter of policy those notes ought to be interchangeable.

Senator BEVERIDGE. I think it would be good and broad business sense. I think the old system displays an ancient kind of immediate and shrewd sense that is not good sense at all.

Senator ALLISON. If in Europe you have a letter of credit on London, a banker will charge you a little shave in Berlin if he advances you money.

Senator BEVERIDGE. This is not a shave.

Senator TELLER. I can remember when in New York a Massachusetts or Pennsylvania bill would not be paid without a discount.

Mr. TOWNSEND. I think the system Senator Beveridge suggests ought to be adopted.

Senator LODGE. In the Philippines your idea would be to coin an American silver dollar?

Mr. TOWNSEND. An American silver dollar for the present would be best until you get the thing well in hand and feel your way sure.

Senator ALLISON. A Philippine dollar with 416 grains?

Senator LODGE. That is what I understand.

Mr. TOWNSEND. Your proposal in this bill really establishes a gold currency.

Senator LODGE. Undoubtedly.

* Mr. TOWNSEND. How are you going to keep up the supply of gold? I do not see anything in the bill by which you are going to keep up the supply of gold money for the country. If the silver dollar is used and if a bank is short of money and interest is high, and if it can lend money at 10 or 12 per cent and wants more, and the mint is open for coinage of silver dollars, it can readily get silver and have it coined and use it. If money falls to 2 per cent and we do not want it and we can use the money better in China, we can export the surplus silver dollars to China. It is automatic. If you have a gold dollar, even if we get 10 per cent per annum interest, it is going to cost us nearly 2 per cent to send to San Francisco and have the money sent out, and even with interest at 10 per cent we should hesitate to do it, because interest might not last more than a month at so high a rate.

Senator BEVERIDGE. Suppose an American bank should be established with headquarters in Manila and branches in Hongkong and Shanghai and at other treaty ports, with power to issue notes to such an extent that they could do what I am about to suggest, and that then that bank should redeem its own notes at their face value at any branch. I should like to ask you what you think would be its effect upon the commercial conditions there as affecting our trade?

Mr. TOWNSEND. Our experience is that bank notes do not circulate except in foreign treaty ports.

Senator BEVERIDGE. You think such a note issue would be confined strictly to Manila and the treaty ports?

Mr. TOWNSEND. Yes, sir. If the Manila notes got to Hongkong they would be sent back to Manila by any bank that received them.

Senator BEVERIDGE. But if all these notes would be redeemed at any branch at their full value, would it not put the notes of the present banks at a disadvantage?

Mr. TOWNSEND. No; I do not think so.

Senator LODGE. Do the Spanish-Filipino Bank notes circulate generally in the islands?

Mr. TOWNSEND. In the islands, but not outside. They have no branches outside. You would not advocate any bank-note issue that was not fully secured?

Senator BEVERIDGE. That goes without saying.

Senator ALDRICH. I should like to ask Mr. Townsend a few questions about the bank-note systems of the East.

Senator LODGE. We must do something for banking in Manila.

Senator ALDRICH. That is quite as important a part of this question as the currency question.

Senator LODGE. Quite as important.

Senator ALDRICH. I understand your bank issues or can issue what may be called uncovered notes up to the extent of its capital?

Mr. TOWNSEND. Up to the extent of its capital. I think it is about \$3,000,000 we issue in Hongkong, and we have a capital of \$10,000,000, and issue the balance in Singapore and Shanghai.

Senator ALDRICH. If you issue beyond that limit you have to put up money?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. Is there any provision in your charter as to the maintenance of a reserve? Is there any reserve kept for redemption purposes as against circulation? Do you keep a special reserve?

Mr. TOWNSEND. The cash reserve required is one-third of issue, and beyond the regular issue it has to be dollar for dollar.

Senator ALDRICH. Is there any provision that you shall keep a special reserve for the redemption of circulating notes?

Mr. TOWNSEND. The shareholders are answerable for the note issue. The shareholders are liable to double the amount of the shares for all debts and for an unlimited amount so far as the notes are concerned.

Senator ALDRICH. Ahead of the depositors?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. How many banks are there there that issue notes? You issue no notes in the Philippines?

Mr. TOWNSEND. No, sir.

Senator ALDRICH. Your note issue is confined to Hongkong?

Mr. TOWNSEND. Hongkong, Shanghai, and the Straits.

Senator ALDRICH. Is there any other bank in the Philippines except the Spanish-Filipino Bank that issues notes?

Mr. TOWNSEND. No, sir.

Senator ALDRICH. Are you familiar with the terms of the law by which they issue notes?

Mr. TOWNSEND. No; I am not. Of course it is the Spanish law.

Senator ALLISON. The Spanish-Filipino Bank issues notes.

Senator ALDRICH. I know that, and no other bank in the islands does issue notes.

Senator LODGE. No other.

Mr. TOWNSEND. No other.

Senator ALLISON. It has a right to issue notes to the extent of its capital, \$5,000,000.

Senator LODGE. I read from the report of the Philippine Commission:

"The amount of bank notes issued by the Spanish-Filipino Bank under its charter and outstanding on August 31, 1900, was \$2,700,750 Mexican. At this date that amount has been reduced to substantially \$2,100,000, and is constantly being reduced; but about \$192,000 of these notes were issued prior to 1884, many of which have undoubtedly been lost or destroyed. But the demand for bank notes for ordinary usages is large, and it is difficult for the managers to make a rapid reduction of the amount of such paper. It is undesirable to contract the convenient and well-known local paper currency too rapidly.

"We have indicated to the managers of the bank that it was desired that the amount of its circulating notes should not exceed the amount of its paid-up capital, \$1,500,000, and that their charter, which authorizes the issue of notes up to three times the paid-up capital, should be amended accordingly, and that provision should be made also by law that the obligation created by outstanding notes or bills should form a first charge upon the assets of the bank in case of failure, and that the exclusive right given to it to issue paper currency in the islands down to the year 1921 was one so nearly touching the sovereignty of the country, its powers of government, and control of its own currency that that exclusive right could not be recognized. A meeting of the stockholders of that bank has been called to consider the suggestions above referred to, but no action has as yet been taken so far as the Commission is informed."

Senator ALDRICH. Are there any other banks of issue in Hongkong?

Mr. TOWNSEND. The Chartered Bank. That is another English bank. It issues notes in Hongkong and the Straits Settlements.

Senator ALDRICH. Are there any other banks of any kind?

Mr. TOWNSEND. There are no other banks of issue except the Chartered and ourselves in Hongkong and Singapore.

Senator ALDRICH. It is true of the other oriental towns. Take Shanghai. What have they there?

Mr. TOWNSEND. We issue notes. I do not know whether the Chartered Bank issues any notes in Shanghai or not. I do not think they do.

Senator ALDRICH. Are there any other foreign banks that issue notes in Shanghai?

Mr. TOWNSEND. I think not.

Senator ALDRICH. There are no notes recognized in Hongkong outside of those of the British banks, I presume.

Mr. TOWNSEND. There are no others. These two English banks are the only banks there that issue notes.

Senator ALDRICH. Persons could readily get charters for other banks if it was desirable; there is no demand for them?

Mr. TOWNSEND. If they could get that power in their charter they could issue notes in the Chinese ports open to foreign trade.

Senator ALDRICH. That is regulated by the home Government?

Mr. TOWNSEND. It is regulated by the banks' charters, and in Hongkong by their charters and the colonial government.

Senator BEVERIDGE. Did you say that the Chartered Bank and your own bank are the only ones issuing notes in Hongkong?

Mr. TOWNSEND. Yes, sir.

Senator BEVERIDGE. I do not think that is true. The German bank there issues and, if I am not very greatly mistaken, the Russo-Chinese bank is issuing notes.

Mr. TOWNSEND. Those banks probably issue notes at the treaty ports of China, but they could not issue notes in the British colonies without the authority of the British Government. There is no reason why any of these banks should not issue notes if they have authority.

Senator BEVERIDGE. I am quite sure the Dutch bank issues notes.

Mr. TOWNSEND. The other foreign banks may issue notes in Shanghai and other Chinese ports, but not in the British colony of Hongkong.

Senator ALLISON. What would be the effect of the Philippine government issuing notes?

Senator TELLER. Philippine greenbacks?

Senator ALLISON. Yes; something of that kind.

Mr. TOWNSEND. I think it would be a very good issue.

Senator ALLISON. Limited, of course.

Mr. TOWNSEND. In India they issue rupee notes very largely indeed, and these rupee notes are covered by coin in the treasury.

Senator BEVERIDGE. Which do you think would be the better and more acceptable plan to the people of the islands, an issue of notes by the Philippine government, that is, the government by commission, or the issue of notes by a very large American bank?

Mr. TOWNSEND. I think the government issue would be the better, because I do not suppose any very large American bank established there would confine its business to the Philippines.

Senator BEVERIDGE. For that reason would not the note issue of the bank ultimately become more acceptable even to the people than the government issue of government notes, since the notes of the bank would circulate in other portions of the Orient, where its branches are?

Mr. TOWNSEND. I do not think it would pay any bank to issue a note, keeping in the coin against the note or putting up a government bond against the note. And otherwise than against good security you could only safely authorize it for a proportion of its capital, and that would not be a large enough issue to be of general benefit.

Senator ALDRICH. This bill, as I understand it—I have read it very casually—provides that any bank in the United States may establish a branch in the Philippine Islands and that other banks may be established there.

Senator ALLISON. Any national bank.

Senator ALDRICH. With a capital of not less than \$500,000, and they may issue notes up to the amount of their capital.

Mr. TOWNSEND. The Philippines do not constitute a very large field for a bank, and any large American bank, with large capital, going there would be more likely to find its business in branches in China and Japan. With a note issue for only a portion of its capital, it would not be a very general benefit to the country. It would not be large enough.

Senator ALDRICH. Can you give us any estimate of the amount of currency actually in circulation in the Philippines?

Mr. TOWNSEND. No; I can not.

Senator ALDRICH. I wonder if anybody can?

Mr. TOWNSEND. I think probably it may be found in the Philippine Commission report.

Senator TELLER. I do not believe you can induce American capital to establish a bank of any considerable size in the Philippine Islands.

Senator ALLISON. Under safe conditions.

Senator ALDRICH. Not unless they can do something else.

Senator TELLER. Unless they can go abroad. There is not business enough there to justify the establishment of a large American bank, with the other banks there, and the other banks have got the leeway. They have started. I do not believe if you apply the bank law that anybody would go there.

Mr. TOWNSEND. We have never aspired to do a large local business in Manila, but are an exchange bank. We will never be willing to issue notes there.

Senator ALDRICH. Is the local business done entirely by the Spanish-Filipino bank?

Mr. TOWNSEND. We do a good deal, but it is not a very large or attractive field.

Senator ALDRICH. In what way is it not attractive?

Mr. TOWNSEND. In locking up money on mortgages and growing crops.

Senator BEVERIDGE. Then their legal experiences there have been unfortunate?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. How many banks are there in Manila?

Mr. TOWNSEND. Two English banks and the Filipino bank.

Senator ALDRICH. That is all?

Mr. TOWNSEND. Yes, sir.

Senator LODGE. There are the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China, the El Banco Espanol-Filipino, and the Monte de Piedad.

Senator ALLISON. Then you think if we should establish an American bank in the Philippines with a limited capital, say, a minimum of \$500,000, it would not be entirely safe to authorize the issuing of notes beyond, say, one-third of the capital?

Mr. TOWNSEND. I think not; but it would depend on the security arranged for.

Senator BEVERIDGE. I wish to ask you a question or two with reference to a thought which has been in my mind since the banking bill has been suggested. The bill provides that any American bank may be established there with the minimum capital mentioned by Senator Allison. Now, would not the effect of the establishment of two or three little, weak banks by persons who imagine they can do a profitable banking business on limited capital be decidedly unfavorable in their experience and therefore unfavorable in the opinion which the people would have of American financial institutions? What I am driving at is this: Should not the establishment of any number of little banks be discouraged and the establishment of one immense institution, if any, be encouraged?

Mr. TOWNSEND. I think that would be much safer and much more to the point.

Senator BEVERIDGE. I am very much against the general establishment of banks there, because we know that every new country is filled

with financial adventurers who can command a small amount of capital and who think in the loose methods of oriental countries there might be opportunities for large gain, the result being inevitable failure and the discrediting of others.

Mr. TOWNSEND. I think any bank there established should be under very strong auspices and under governmental supervision. It should feel its way in connection with the Government officials for the development of the islands.

Senator BEVERIDGE. That brings me back to a question I put, but not very clearly, a moment ago. Suppose an American banking institution with very large capital should be established with headquarters in the Philippines, for political reasons, but with large and active branches in the treaty ports of China, and suppose—whether or not you think it is wise or good economy—that it did redeem its notes at all branches at par. Would not that give that bank a very large advantage? Suppose they actually did do it, even if you think it unwise.

Mr. TOWNSEND. The only check to that is that I have never known those foreign notes to penetrate into China. They go among the treaty ports.

Senator BEVERIDGE. And one reason why they do not penetrate into China is because of the uncertainty of their redemption at a certain exchange. They would be taken, would they not, for the same reason that the British dollar is taken on count if experience showed that they would always be accepted at par?

Mr. TOWNSEND. Yes.

Senator BEVERIDGE. They would therefore penetrate into the interior precisely as the British dollar has done, because experience would give merchants the idea of value.

Mr. TOWNSEND. When you get outside of the foreign treaty ports you have no legal status there, and any day the Chinese Government may take up the matter of their own currency and may issue Chinese Government notes, which would interfere with the circulation of foreign bank notes.

Senator LODGE. There are some \$30,000,000, Mexican, in circulation in the Philippines?

Mr. TOWNSEND. Recurring to Senator Beveridge's question, I think the paper money would have a large circulation in Manila, but considering these other banks, as you say, can all issue notes if they like, and the field being confined more or less to the foreign treaty ports, I do not think the field for American bank-note issues is very large outside of the Philippines. There they are under their own flag, and there they would have a field, and a large field; but in China you are in a foreign country.

Senator TELLER. You do not believe that you could by any issue of paper get it into the interior of China?

Mr. TOWNSEND. No.

Senator TELLER. Nor out of the treaty ports?

Mr. TOWNSEND. No.

Senator ALDRICH. I suppose there is no doubt that if we issue a Philippine dollar and make it a legal tender in the Philippines it would very soon drive out the Mexican dollar now there.

Mr. TOWNSEND. Oh, yes. You would have to redeem the Mexican dollars, and you would have to give notice that after six months or so the Mexican dollar would cease to be legal tender.

Senator ALDRICH. If we coin an American dollar which is legal tender in the Philippines, it will certainly drive out the Mexican dollar. You would have to give time, of course.

Mr. TOWNSEND. You would have to give notice, and you would have to exchange or redeem the Mexican dollar for the new dollar, up to a certain time, and after that you would have to provide that the Mexican dollar would not be exchangeable and would not be legal tender, and then, if there were any left, they would have to find their way to China.

Senator ALLISON. What would be the effect of establishing the gold standard there now and making all these exchanges at the rate of two to one as proposed here? Would that have a tendency in any way to change the prices of commodities or the wages of labor?

Mr. TOWNSEND. I think so, because I think the gold coin would be considered the basis of the currency and it would be considered the dollar of the place and it would, as it has already been shown to have done, convert debts which are due in Mexican dollars into debts due in gold dollars, nearly doubling prices.

Senator BEVERIDGE. It would precisely double the wages of labor, for the reason that the laboring man would insist upon precisely the same number of pieces that he got before. He would make no distinction. Therefore, he would insist on just twice as much.

Mr. TOWNSEND. Yes, sir.

Senator BEVERIDGE. That is to say, if you gave a laboring man a peso for a day's work he would to-morrow, when it was redeemable in gold, also insist on a peso?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. If I understand your general idea, it is that we should await the establishment of the gold standard until the Philippines are further developed?

Mr. TOWNSEND. Yes, sir; certainly.

Senator ALLISON. Until they largely increase their products?

Mr. TOWNSEND. If you put the gold currency there, it will decidedly check industries.

Senator BEVERIDGE. And segregate the islands from the East, of which they are a part?

Mr. TOWNSEND. Yes, sir. As to the effect upon the trade of this country, between a gold standard and a silver standard for the Philippines, I think the gold standard would keep that country poor. It would check her exports all around, and what those islands can take from you must depend upon what they can sell. At present on the silver basis they can produce cheaply and sell cheaply and do a large export trade, and hence as a natural consequence they can afford to carry on an import trade for what they export. If you put on the gold dollar you check that trade all around, and you especially check it with China and other silver countries which probably are the greatest traders with the Philippines.

Senator BEVERIDGE. You stated, I think, in your paper that there had never been an attempt to establish the gold standard in these oriental and tropical countries. Are you not a little mistaken about that? Did not Great Britain in 1825 attempt that thing with the British pound and the shilling being wherever the British drum was heard? That was attempted and failed utterly. They found they could not do it.

Mr. TOWNSEND. I did not know that.

Senator BEVERIDGE. I think that is true.

Senator TELLER. The Senator from Indiana is right about it. They made the effort and failed.

Senator BEVERIDGE. They attempted to do it in all the British colonies, and a great popular cry was started about the British shilling and the British drum.

Senator TELLER. They tried it and failed.

Senator BEVERIDGE. Mr. Townsend said it had never been tried before. It has been tried. It has been tried in the Straits Settlements, in India, in Ceylon.

Mr. TOWNSEND. Its failure only strengthens the argument.

Senator BEVERIDGE. Certainly.

Mr. TOWNSEND. I did not go back so far as that.

Senator TELLER. The Senator from Indiana is right about it. I remember looking it up very carefully once.

Senator ALLISON. Have you had actual experience in China and in the East?

Mr. TOWNSEND. I lived out there ten years. I never was stationed in Manila.

Senator BEVERIDGE. Where were you stationed?

Mr. TOWNSEND. In Shanghai and Hankow and Japan and India.

Senator ALLISON. So you have had some observation of the currency there in the past?

Mr. TOWNSEND. Yes, sir.

Senator ALDRICH. You have had ample opportunity to study the question?

Mr. TOWNSEND. Yes, sir.

Senator ALLISON. Is there anything further you wish to inquire about?

Senator TELLER. Mr. Townsend, you are going to London. Please state in what capacity you are going there now.

Mr. TOWNSEND. I am going there as joint manager of the London office of the Hongkong and Shanghai Bank.

Senator TELLER. Have you been getting any gold from the Philippines?

Mr. TOWNSEND. Yes, sir; we have been receiving gold from the Philippines, and notes—United States notes.

Senator TELLER. In considerable amounts?

Mr. TOWNSEND. I have received about a million dollars in notes, and the gold has gone, first of all, to Hongkong, and some of it has been kept there and some has been sent to San Francisco. The Chinese have exported from Manila a very large amount of gold, which they have sent to Hongkong and sold, either to be sent to London or San Francisco.

Senator ALDRICH. Is that a usual movement?

Mr. TOWNSEND. It is because the Chinese send Mexican dollars to Manila and buy gold and they can sell the gold in Hongkong for more Mexican dollars than they pay for it in Manila.

Senator ALLISON. The Chinese understand that business.

Mr. TOWNSEND. There are no people anywhere who understand it better.

Senator TELLER. I understand they made a very handsome profit on it.

Mr. TOWNSEND. At one time, when the authorities fixed the 2 to 1 standard and found it did not work and the gold was being exported, they were inclined to make remarks about the banks, but the bankers kept their hands off of the gold entirely, to work in unison with the authorities. They found the gold going just the same. The Chinese were doing it.

Senator BEVERIDGE. As a matter of fact, the banks did dabble in such transactions to the extent of making all the profit they could, until the authorities complained.

Senator TELLER. I do not see why they should not.

Mr. TOWNSEND. They were not blocking the course of the running water. [Laughter.]

Thereupon (at 12 o'clock meridian) the subcommittee adjourned.

WASHINGTON, D. C., *March 3, 1902.*

The subcommittee met at 2 o'clock p. m.

STATEMENT OF FRANCIS B. FORBES.

Senator ALLISON. Mr. Forbes, will you state your occupation and what relation you have now and have had at any time to the business of the East?

Mr. FORBES. As a very young man I went to China as an attaché to Mr. William B. Reed's legation, in 1857. In 1858 I went into the employ of Russell & Co. as a clerk.

Senator ALDRICH. In China?

Mr. FORBES. In China. Russell & Co. had establishments all over China. In 1862 I was their agent in Tientsin, and Mr. Anson Burlingame, who was then our minister, appointed me United States vice-consul there, and I hoisted the United States consular flag for the first time in Tientsin.

From 1863 to 1882 I was a partner in Russell & Co., nearly all of the time in Shanghai, and from 1873 until 1882 I was managing partner.

Senator ALLISON. In Shanghai?

Mr. FORBES. In Shanghai. Before I retired in 1882 I was for some years chairman of the Shanghai General Chamber of Commerce, and in one way and another was more or less "behind the scenes" as to political affairs.

Since I left China in 1882 I have kept in very close touch with economic and monetary questions connected with the East. I have never been in the Philippines. All that I can offer you to-day is the experience of a merchant who is familiar with the general course of Asiatic commerce.

Senator ALLISON. Our object, Mr. Forbes, in asking you to appear before us was that you might give us the benefit of your experience and knowledge respecting the metallic money and also the paper currency which it is wise to provide for the Philippine Islands. I do not know whether or not you have seen our bill on that subject, introduced by Senator Lodge.

Mr. FORBES. I have not seen the bill, Senator Allison, but I have

read very carefully the report which has recently been published by Mr. Conant. The text of the bill has not come under my notice, but I have taken Mr. Conant's report as being a full official exposition of the recommendations of the Philippine commissioners.

Senator ALLISON. It is.

Mr. FORBES. And I have worked upon that.

Senator LODGE. The bill embodies the principles of the report.

Mr. FORBES. I am in favor of the coinage of an American Filipino silver dollar, weighing 416 grains, 900 fine—that is to say, of the same weight and fineness as the theoretical but badly minted Mexican dollar now current in the islands and the well-minted "British dollar" of Hongkong and the Straits Settlements. I believe that as the Philippines have come to us by the issue of war and must remain under our sovereignty our paramount consideration must always be the welfare and advantage of the inhabitants themselves. I am convinced that such a coinage as I propose would best serve their needs and interests, while it would neither prejudice American commerce with or American investments in the islands, nor complicate the financial operations of our Government with them.

Broadly speaking, silver has been for ages and still remains the standard of value among Asiatics. It is the metal best suited for the daily transactions, whether domestic or intertribal, of peoples the great majority of whom are very poor. Silver has also been the easiest medium, in these backward countries, of guarding small savings in the shape of personal ornaments, which will bring their weight in standard money when trouble comes.

It is true that British India has linked the silver rupee to the gold sovereign at a fixed exchange value of 16 pence, a rate which has been maintained with a certain steadiness for some years, but only by artificial interference with the currency and circulation and by sterling loans in England to meet Indian government indebtedness. Notwithstanding this, it is certain that the natives continue to measure commodity values by silver; and probably the poorer classes have been conscious of no change until famine or other misfortune has compelled them to sell their silver ornaments. Then, at last, they have found that their little hoards of this metal can only be sold at rather more than half their weight in rupees instead of the full weight which they had expected.

It is also true that Japan has established a gold standard, but I doubt whether thoughtful men will admit that this system has yet passed the experimental stage. For it is still an open question whether the Japanese treasury can permanently endure the constant drain of gold from the limited reserves on which the paper circulation rests.

The nearest trading neighbors of the Philippines—the vast Chinese Empire, the British colonies of Hongkong and the Straits Settlements, French Indo-China, Siam, and most of the numerous islands of the Malay Archipelago—are all under the silver standard. These different races and nations may give little heed to the principles of currency, but they do understand perfectly well that the best money is that which stands the test of the melting pot, and they are quick enough in applying this test themselves. I have a strong impression that a considerable part of Philippine commerce is carried on with silver-using countries, and I notice that Mr. Townsend was of a like opinion when he recently testified before your committee. I have not, however, been able to

find statistics which give anything approaching to the truth on this point, and I doubt if such exist. It would seem, in any case, that the Filipinos should retain, fairly and squarely, the same standard of value as all these neighbors, more especially as silver is the currency they have always preferred, even during the long period when Spain attempted to substitute gold for it.

The report of the Schurman Commission gives a concise history of this struggle during many years of the last century. It was soon evident Spain could not help admitting silver into the circulation; and a complicated dual currency existed in 1874, when the world value of silver measured in gold began its long-continued decline. Nothing could then prevent the gold from going to a better market, and after only a few years an inflow of silver had entirely replaced that metal in the islands. Then, for the first time in several generations, the Filipinos possessed a fairly abundant supply of their favorite currency and were prospering through its influence when political disturbances put trade and industry out of joint. Is it, then, either logical or expedient, at a moment when we are hoping for the entire pacification of this people, to create a gratuitous source of friction by unsettling and confusing their commodity values and rates of wages through the revival of the gold standard, chiefly, it would seem, because we, with other great nations on the opposite side of the world, have finally adopted that standard ourselves?

I say this because I have been able to find no evidence that the proposal to establish a gold standard in the Philippines, with silver token dollars for purely domestic use, is supported by any serious demand from the natives themselves or from the foreign merchants who trade with them. The arguments presented by the official advocates of this plan, so far as they have come under my notice, may be summed up as follows:

1. That a gold standard would be an advantage to American and other foreign merchants trading with the Philippines, because the risk of fluctuations in silver would be eliminated.

2. That the commercial and industrial development of the Philippines can not be assured without a large influx of foreign capital, and that American investors, who are now rendered timid by this "silver risk," would be attracted to the islands if their currency were put on a gold basis.

3. That our Government finance in the islands would be simplified if the new Filipino gold peso were worth exactly 50 cents of our gold dollar.

4. That a capable finance minister of the Philippines would always be able to control the amount of silver token dollars issued, so as to meet the needs of a legitimate circulation and to prevent drains on the gold reserve held in the treasury to guarantee redemption of the silver.

5. That under the above circumstances the Filipinos would have a stable gold standard, simply and permanently linked with our own, with a silver token currency, differing so slightly from what they now use that objection to it can hardly be expected, while the Government guaranty for redemption in gold would give absolute confidence, and that the islands would thus be placed under the most favorable currency conditions for prosperous existence.

I am far from wishing to suggest that the authors of this scheme are

not actuated by the highest and best motives toward the Filipinos. But their arguments need only to be marshaled to show that the more evident and immediate advantages appear to be the elimination of the "silver risk" for our own merchants and investors, and less complicated methods in handling the pay of our forces or other financial operations of our Government. As to the islanders themselves, the great advantages predicted for them appear to depend materially on the constant benevolent care of our Government in regulating their token currency; while as to the finance ministers who are to be our agents for this purpose I fear that the strain of such work might send the best of them back to this country with all the marks of premature old age.

I ask leave to discuss these arguments in succession, as briefly as possible.

In the first place, I believe that the trading difficulties arising from fluctuations in the gold value of silver are much exaggerated, and that to merchants in active business they are by no means a bugbear. Ever since all continents and great islands of the globe have been connected by a fairly complete system of submarine cables the course of trade has been revolutionized, and the producer is now brought in very close touch with the consumer. Let us follow out, as an example, the course of an operation in Manila hemp sent to this country.

(a) The Filipino planter offers to deliver to an exporter a certain quantity of hemp at a given price and at a given date ahead, and the exporter takes the option for a certain time. The planter names his price in silver, and does not wish to receive anything else, as wages and every other item in the cost of his hemp have been or will be paid in that metal.

(b) The exporter then ascertains from a bank in Manila the rate of exchange at which his sterling bills against the hemp shipment will be accepted at the given date ahead.

(c) The bank ascertains at what gold price it can provide the silver when needed to cover the cost of the hemp, and names the sterling rate for the exporter's bills of exchange accordingly.

(d) The exporter then telegraphs to an American manufacturer, giving an option on the hemp for delivery ahead at a certain gold price, which, of course, will include the exporter's commission.

(e) The American manufacturer telegraphs back an acceptance of the offer.

(f) The exporter then buys the hemp from the Filipino planter at the silver price agreed upon, settles definitely his sterling-exchange rate with the bank, and afterwards, at the proper time, ships the cargo to this country.

It is thus seen that, between the Filipino planter who wants only silver and the American manufacturer who pays only in gold, every intermediary has made one hand wash the other before the transaction is completed. There has been no "silver risk" for anyone, and any claim that the bank has had to fix its rate of exchange so as to insure its own risk of silver fluctuations falls to the ground. I can say, from my own personal experience in China, that any possible charge for such insurance was insignificant, and I know from merchants in this country and in England who now trade with the Far East that neither for China nor the Philippines nor the Straits Settlements does the question of silver give them any solicitude. It is true that a sudden

fall in the gold value of silver, if reflected in the rate of sterling exchange, might enable the Filipino planter to obtain a higher silver price for his hemp, and vice versa in case of a rise in silver; but this would be only one among the many factors which determine the higgling of the market.

Undoubtedly the Filipinos need a large influx of foreign capital to aid them in opening up the enormous undeveloped resources of the archipelago. But if the beneficent government which we hope to establish shall give them more freedom in the conduct of their own affairs than they enjoyed under Spanish rule, I am convinced that their own normal advance in prosperity will do more to draw foreign investors to their side than any change from the silver to the gold standard. We all know that serious capitalists are not attracted by adventures in a distant country unless its conditions are those of orderly and peaceful industry and unless the clear chances of profit are much greater than for home investments. It is the Filipinos themselves who must first show the world that they can cooperate with us and others in securing the future of capital invested in the islands before much money from outside will begin to move there.

When that day shall come the natural capabilities of the Philippines will surely outweigh any probable interference from silver fluctuations, which are now reduced within very narrow limits as compared with fifteen or twenty years ago. On the other hand, as a matter of history, the fixing of the gold value of the silver rupee does not appear to have influenced a greater flow of foreign capital to India than was known previously. As to Japan, it is certain that the change to the gold standard was made in expectation that Government loans would be more easily issued abroad; and it is equally certain that in this hope the Japanese have been disappointed.

I say that largely because the Japanese used to get loans abroad, and get them now; but they do not get them any more easily.

SENATOR ALLISON. In other words, you think that fact itself has not really helped their national credit?

MR. FORBES. No; it has not. That is what I hear from bankers in Europe, who have told me about the Japanese loans that have been proposed.

It seems hardly necessary to dwell upon the point of convenience in Government finance, more than to say that in this case it seems to be, and should be, made essentially a mere question of official bookkeeping. The simplest kind of legislation is needed to provide that certain Government payments in the Philippines, due in gold, may be made there in local currency (whatever that may be) at rates of exchange to be officially settled from time to time.

Should there be any loss between the local payments at official rates and the actual cost of procuring the currency, such loss should be charged to the United States or to the insular government, according to the nature of the case. That done, the supply of local money for government purposes would be a mere matter of detail. In the meantime it seems strange that the War Department should have to send out millions of our gold and notes for the payment of our army in the Philippines, where our money is not even legal tender. This procedure entails not only useless expense to ourselves, but unnecessary loss to our troops and constant friction everywhere, while as our gold and notes are not wanted in Manila, large amounts are finally bought and sent home again by some one, presumably at a profit.

Any plan by which a government shall regulate the amount and maintain the parity of a currency entirely composed of token coins, which is practically that proposed for the Philippines, must be admirably conceived in order to be effective, even with financial administrators of the longest experience. We all know how hard it is among ourselves, with all our automatic movements of gold to and from foreign countries and with all our banking facilities, to keep the amount of money in circulation fairly commensurate with the requirements of trade. What would it be in detached islands like the Philippines, with hardly any banks, where redundant token coins could not be exported, and where scarcity could be remedied only by the power of a finance minister to order additional coinage?

As to maintenance of parity, the claim that the provisions for redemption in gold would inspire the natives with absolute confidence seems to be unduly optimistic, for they do not know gold. The plan itself appears to be something like that of British India, where the government will always give 15 silver rupees for a gold sovereign, but does not promise to give a gold sovereign for 15 silver rupees. The redemption of silver token dollars in gold is to be at the discretion of the Philippine authorities. Now, gold is needed in the islands at the present moment only for the payment of our troops, which has nothing whatever to do with the trading requirements of the people and might easily be effected otherwise.

With a gold standard gold would be needed only as a reserve to maintain the parity of the silver token currency. In actual practice this would mean that if an adverse trade balance coincided with a lack of inducement to ship merchandise, Philippine debts abroad would have to be paid in gold, as the silver token dollars could not be exported on account of their failure to stand the test of the melting pot. Accordingly, at such a juncture, silver token dollars would be presented for redemption in gold for export, and in ordinary course such operations would all pass through the exchange banks. As far as I can gather, when silver token dollars shall be presented to be redeemed in gold for export the onus of deciding whether the operation is legitimate and whether the gold shall be delivered is to be thrown upon the finance minister, but I have yet to learn how the evidence on which his decision is to be based shall be obtained.

It is certain, however, that in any critical commercial situation a refusal by the Government to deliver gold for export would at least engender distrust, and might easily bring on disaster. On the other hand, in such a crisis the entire gold reserve derived from the profits of seigniorage on silver coinage (which is the normal quantity proposed) might be insufficient to meet the absolute needs of local commerce for export, and a deadlock might ensue before new gold could be obtained by and at the cost of the insular treasury. Absolute safety might, perhaps, be assured, but only by a very much larger gold reserve than is contemplated; and the expense of keeping such a sum idle in the Treasury, perhaps for years, would far overbalance any benefit which the islanders could hope to obtain through the gold standard.

The advocates of a gold standard for the Philippines honestly believe that they are promoting the best interests of the inhabitants by giving them a stable currency, which has been heretofore lacking. Now, it may be hard for persons not familiar with Asiatic life and

modes of thought to realize that for the Filipinos silver has been, and is, just what gold is for us; but it should never be forgotten that this is a fact. They have as stable a standard of value for their own purposes as we have for ours; and the fluctuations in the gold price of silver affect them when dealing with gold countries no more than do the same fluctuations in our dealings with them.

For guidance in dealing with an Asiatic dependency there are three well-known principles: To make all possible use of existing materials, to respect native customs and to deal tenderly with native prejudices, and to innovate cautiously only when the change is clearly and beyond question seen to be required for the well-being of the people. By anyone who admits the soundness of these principles, the imposition of a gold standard on the Filipinos is found to be in disregard of all three.

It must be said, however, that there are manifest drawbacks to the retention of the Mexican dollar as their chief currency. These coins are badly minted, and vary appreciably in weight and fineness, but the chief objection is that the supply is dependent on the export from a foreign country. The American-Filipino silver dollar which I advocate would not only take the place of the Mexican dollar in the islands without friction, but would be found thoroughly good money for export when required by the exigencies of trade.

I will conclude by respectfully submitting for the consideration of your committee some suggestions which, so far as I am aware, have not been made before.

After a somewhat careful study of our recent relations with the Philippines, it seems to me hardly probable that any question of changing the whole basis of their currency could have arisen had it not been for the difficulties which existing laws impose upon our War Department and military authorities in paying our troops in the islands.

According to the United States Revised Statutes and the act of February 2, 1901, for the reorganization of the Army, persons in our military service are entitled to receive, according to their rank, certain sums in our own currency; and I have found no provision making it legal to pay them anything else.

Under such circumstances the War Department appears from the first to have been forced to send to Manila large amounts of our gold and notes for the regular payment of our troops. No one can be surprised that, as a result, both the military and civil authorities on the spot should have been bewildered in their laudable attempts to save our officers and men from loss in dealing with a currency which was not legal tender in the islands.

Local laws were passed imposing penalties on any discrimination against United States currency; and although these enactments were directly aimed at the English exchange banks doing business with the Government, it is only fair to these banks to note that they cooperated loyally with our authorities in the attempt to keep our currency at a parity of one gold dollar for two Mexican. In so doing I do not hesitate to say that they went far outside of their ordinary course of business, and I consider that the failure of the attempt was not their fault.

It must be remembered that in the summer of 1900 troubles in Peking brought to that region a large force of different nationalities, and that Mexican dollars were needed for the expenses of these troops, our own among the number. This crisis put an unusual strain on the normal supply of Mexican dollars, which were sent to north China

from Manila, as from every other place where they were current. At the same time the government of British India, where all coinage had been suspended since 1893, found itself obliged to replenish its circulation of silver rupees, millions of which it had melted down, in order to keep their gold exchange value at the artificially established rate of 16 pence. During the short time at my disposal I have been unable to get the amount of rupees then coined; but exports of silver from England to India during 1900 and 1901 exceeded a value of £15,000,000 sterling, or over \$73,000,000. This new demand for coinage, even more than the mere drain of Mexican dollars from Manila, helped to raise the gold value of silver above the point where our authorities and the banks in the Philippines had tried to "peg" it.

I hold no brief for these two English banks; but for many years I have personally known their leading officials as men of conspicuous ability and high integrity. I am sure that it was their wish, as it certainly was their interest, to do all in their power to help our authorities through the quagmire where our laws had landed them. As to our soldiers, even those who got from the banks the best possible exchange for their home currency were certainly put to needless annoyance, while those who were at the mercy of small money changers or shopkeepers must have suffered distinct hardship.

In contrast to this there has been no trouble of the sort with the sister service of the Navy, although our men-of-war have been cruising in every sea during the same period. I find in the Revised Statutes that, while navy pay is also fixed in our own currency, there is a simple provision for payments in foreign countries, nothing corresponding to which appears in the army chapter. Section 1563 is as follows:

"The President of the United States may direct such advances as he may deem necessary and proper to such persons in the naval service as may be employed in distant stations, where the discharge of the pay and emoluments to which they are entitled can not be regularly effected."

As an example of the working of this section, I know that during my long residence in China our naval paymasters were in the habit of cashing their drafts in one banking house or another, and of receiving in exchange whatever local silver currency they needed. Such currency was doubtless used for "advances" to officers and men, at official rates of exchange fixed by some naval authority, which rates in my experience were always advantageous to those who drew their pay in China. I presume that similar arrangements hold good in the Navy to-day.

In last analysis, then, it would seem that proposals to change the standard of Philippine currency are almost directly traceable to the fact that when, for the first time in our history, we sent a large army to a distant country Congress omitted to pass appropriate legislation for their pay in convenient currency while abroad. But it also seems that this omission might be immediately rectified by the enactment of a law for the Army with provisions analagous to those of section 1563, Revised Statutes, for the Navy. Such a law would, at any rate, at once relieve our soldiers, who have thus far been the chief sufferers from the currency trouble; and, that accomplished, the question of altering the monetary standard of 8,000,000 dependent people could be more easily viewed in its true perspective.

I will ask permission to put in here, as part of the record, a copy of a letter which I wrote about a year ago to Secretary Gage, and which was addressed to him by Mr. Horatio Curtis, president of the old Boston National Bank, and myself. In this letter we went a little more into detail than in my statement here about the history of currency in Manila, and one or two other points. The letter is as follows

BOSTON, *March 5, 1901.*

HON. LYMAN J. GAGE,

Secretary of the Treasury, Washington, D. C.

SIR: We have followed with close attention and much anxiety the news which has reached us from time to time of recent enactments by the Philippine authorities regarding their local currency, as well as certain reports of projects for further legislation on the subject. We therefore respectfully beg to submit to you our views on these subjects in some detail.

We are informed that a proposal for a radical change in the existing currency system of the Philippines is under discussion, and that the Administration are disposed to consider it favorably. We learn that the new scheme is based on the alleged expediency, if not necessity, of establishing a fixed relation between the gold currency of the United States and the silver currency of the islands. We also learn that with a view to establishing such a parity there is a suggestion from an influential quarter for the coinage by our Government of a silver Philippine dollar with a bullion value of some 45 gold cents, which would become legal tender in the islands for one-half of a United States gold dollar.

Assuming that the facts have been, in the main, correctly reported to us, we wish to state, as earnestly and emphatically as we can, our reasons for believing that a grave mistake would be made by the adoption of any such plan. We are convinced that it would be prejudicial to the welfare of the Filipinos themselves, which, as President McKinley has justly said, should be our paramount aim in our dealings with them, and furthermore that, far from obviating, it would certainly increase the present difficulties of those responsible for the insular government. Aside from other reasons of a more general kind, we would specially draw attention to the experience of the past century, which proves that all attempts to keep gold and silver in circulation at a parity in the islands have utterly failed.

The history of the Philippine currency is resumed in the first volume of the report of the Schurman Commission (Senate Doc. No. 138, January 1, 1900, Part IX, pp. 142-149), to which we beg reference.

According to this report, during the first half of the nineteenth century, "the Philippines suffered from a varied and continued monetary crisis." Together with various gold coins, the currency consisted of Spanish, Austrian, and Mexican silver dollars, with fractional silver of several systems. The report, without giving details, adds: "There was not enough silver for the needs of the people, but gold money was very plentiful, and it sometimes suffered a discount of 33 per cent of its value."

It is reasonable, therefore, to suppose that, under the then existing conditions of their trade and exchanges, the islanders could not attract silver to themselves in competition with China and India, and that, on the other hand, the export of silver dollars to China was profitable

enough to denude the Philippines of those coins, leaving behind only gold and debased fractional silver. What is certain is that the Filipinos wanted silver for their own use and for trade with their neighbors, and that the Spanish Government, by persistently maintaining the old nominal gold standard, prevented silver from remaining in the country. For in those days the value of silver, measured in gold, was greater in India and China than the legal parity established in the Philippines.

But with the entire change in the relative world values of the precious metals which has been brought about since 1873 silver has been flowing into the islands, while gold has been exported.

A mint had begun to work in Manila in 1861, and, according to the report quoted above, had probably coined more than \$20,000,000 in gold, which metal "was abundant in the Philippines in 1875." But in 1876 the Spanish Government recognized the fact that silver "was still sought in preference to gold," and "the circulation of Mexican silver money of \$1 at the same value as the Philippine gold dollar was authorized." Accordingly, as the Mexican silver dollar remained on a parity with the gold dollar within the Philippines, while its gold value continued to decline outside, gold was constantly "purchased with the Mexican silver until all the gold coin left the country." * * * At this time (1899) the Philippines are on "a silver basis."

The Schurman commission state that they had "examined many bankers, business men, and professional men on the question of the currency," with results which may best be summarized in their own words.

"The most of the old merchants, the bankers, and the natives favor the retention of the silver currency as it is at present. Their arguments are rather practical than scientific. * * * The idea of these witnesses is that gold has appreciated. The natives secure better prices for their products. They get more dollars than they did before, and they look at the number of dollars only. The competition in business is so great that the exporter makes only a small commission. The advantage of higher prices for products goes to the native. The universal opinion is that lower exchange has benefited business. * * * These gentlemen say that the existing currency is the best for the islands, unless the United States should coin a dollar of the same weight as the Mexican, and allow it to circulate as a dollar.

"The preponderance of proof before us is that the agricultural people would not be satisfied to receive fewer dollars than they now receive. The Commission does not see its way to recommend any sudden and arbitrary change in the currency. * * * Our attention has also been called to the fact that these islands have extensive trade relations with China and other silver-using countries which might be embarrassed by a return to a gold basis."

We have no hesitation in ranging ourselves on the side of "most of the old merchants, the bankers, and the natives," who testified before the Schurman Commission, and in indorsing the above-quoted conclusions of the commissioners themselves.

The Mexican dollar, which is the present mainstay of the Philippine currency, offers some practical inconveniences. Nominally weighing 416 grains of silver, 900 fine, the Mexican dollar, as minted, varies between 415 and 418 grains in weight and between 898 and 900 in fineness. Moreover, its supply of late years has proved so irregular as

to cause serious embarrassment in those parts of the Far East where it is legal tender. To obviate these difficulties the mints in British India have recently been coining a "British dollar," exactly equivalent to the theoretical Mexican, which is fast being replaced by the new coin in the colonies of Hongkong and of the Straits Settlements. The British dollar has also gained a certain currency in North China, since the international military expeditions to that region.

We would therefore recommend that the United States Government should coin a Philippine dollar containing 416 grains of silver, 900 fine—that is, the equivalent of the theoretical Mexican dollar and the exact bullion equivalent of the British dollar.

We are convinced that a new dollar for the Philippines of any other weight or fineness would only add to any difficulties arising from the present situation.

It might, on later consideration, be found expedient to give the British dollar legal currency in the islands if a like currency were conceded to the Philippine dollar in Hongkong and the Straits Settlements. This would certainly add to the elasticity and stability of the insular circulation, because whenever trade movements required the import or export of coin the British dollar could be immediately available, as well as the Philippine and the Mexican. The field for the use of the Philippine coin would also be widened so as to become continuous with that of the British dollar.

Reverting to the alleged expediency or necessity of fixing some parity between United States gold and Philippine silver currency, all the evidence shows that no call for such a parity has come from either the natives themselves or from the merchants and bankers who conduct the trade of the islands. On the contrary, the evidence points even more strongly to the fact that the absence of parity has been a source of perplexity only to those of our Government officials who are responsible for accounts with our civil, military, and naval establishments in the Philippines.

We would beg of those who are advocating a change to remember that only within recent years, as we have stated above, has the possession of a free and comparatively ample currency of silver enabled the Filipinos to recover from the evils entailed by the ill-advised Spanish decrees, which had kept them on a more or less fictitious gold basis for generations. We are convinced that any new legislation designed to put back their silver money into any fixed relation to gold would merely disturb local currencies and values. There would be no compensating advantage to the islanders, and an obstacle to the easy adjustment of international trade balances would be created, whereas none exists to-day. For the Mexican dollar can now be used for remittances between the islands and Hongkong or the Straits Settlements, and so could the new Philippine dollar, which we recommend, or the British dollar, if so arranged between ourselves and the British Government.

On the other hand, the suggested 45-cent (gold value) dollar could not circulate beyond the islands, and debts abroad could be paid only in gold if Mexican coins had disappeared or if there were no inducement to export commodities. But the greatest hardship would be felt by those least able to bear it—by the small traders in the Chinese junks and other native craft which ply in almost every direction in the China seas. For the poor Filipino could not offer his token dollar to a

Chinese, or an Annamite, or to anyone in the Malay Archipelago, and gold, in any form, would be equally useless. For these small, but in the aggregate important, transactions, nothing will pass save the Mexican or other recognized silver dollar of equal bullion value.

Coin will naturally leave a country under certain circumstances, especially with an adverse trade balance, and with a dual currency the more valuable coins will always go first. Under the system suggested in Washington the gold would always be exported, and so there would be additional difficulty in holding a sufficient stock of that metal to provide for interchangeability with silver, which our Government would have guaranteed.

It seems hardly necessary to add that legal penalties for export of either precious metal are prejudicial to trade in any event and that they can rarely be enforced. Smugglers are those who chiefly profit thereby.

For such perplexity as may now exist in keeping our official accounts with the Philippines a remedy seems already indicated in the practice of the British Government as regards its disbursements in silver-using countries. Taking this as a guide, we venture to suggest the following system:

At stated intervals the Treasury in Washington should fix an official rate of exchange between the United States gold dollar and the silver Mexican or new Philippine dollar recommended above. All Government payments due in gold in the Philippines should be made in silver at this official rate. The disbursing authorities in the islands should sell their bills on Washington by public tender, in manner to be arranged, and if the sale of their bills at other than the official rate entailed any loss, such loss should be charged in Washington either to the United States Treasury or to the insular government, according to the nature of the case.

In this way the difficulty would be reduced to its proper proportions by becoming a matter of official bookkeeping only, and the trade of the islands, whether internal or foreign, would continue under normal currency conditions.

Many of our people are doubtless looking forward to a considerable growth of a Philippine demand for American manufactures, but it is evident that no important development in that direction can take place unless the islanders are able to pay for their new wants by a largely increased sale of their own products abroad. No figures are available to show how great a proportion of Philippine exports has gone in the past to provide for what, directly or indirectly, was tantamount to their "tribute" to Spain.

But, however grievous this burden may have been, it is, at any rate, removed by the transfer of the islands to the United States; and if the gratitude so far shown for this benefit may seem less heartfelt than we could wish, we may hope to see it grow with the growth of their prosperity under our tutelage. The more the islanders can export the more they can buy from us. Our own future interests would be jeopardized by any ill-considered legislation which would again trammel their industries and commerce, and we can hardly conceive of a more insidious danger than the new project for creating a parity between gold and silver among them.

We have the honor to remain, sir,

Your obedient servants,

H. G. CURTIS,
F. B. FORBES.

Senator ALLISON. What measure could we put into this law regarding the matter of exchange in addition to this navy provision, which works very well on the ocean and works very well as respects our Navy? Can you recommend the insertion of any provision on that subject which will so operate that all of our people who go out to the Philippines, whether civil or military or what not, shall be able to throw the burdens of the fluctuations of exchange, whatever they are, upon the Government—either the Government of the United States or the government of the Philippines? In other words, where we agree to pay certain sums according to our standard, and they are paid in another standard, can we in any way by law so arrange that these people can be paid without a loss, leaving the standard as you propose?

Mr. FORBES. I do not see why there need be any practical difficulty on that score. I am not a banker, as you know, and speak with great diffidence about this matter; but if my recollection is right the English Government, which has more of that kind of thing to do than anybody else, arrange so that where their people are paid in gold they get from the banks, at regular intervals, tenders for their bills on the home Government. They are advertised by public tender, perhaps. At any rate, they get them. Then they fix a rate at which they will pay their people.

Senator ALLISON. They get them as exchequer bills?

Mr. FORBES. Whatever they may be—exchequer bills or bills on their own department. At any rate, good government paper is sold through the banks. Then they fix the rate of exchange (also periodically, I believe) for their people, and give them a favorable rate.

Senator ALLISON. Once a month, or once a quarter, probably?

Mr. FORBES. I think they do it once a quarter, but I am not quite sure.

Senator LODGE. That is substantially our naval system, I think.

Mr. FORBES. I do not know what it is now. It used to be something of that sort.

Senator LODGE. Yes; I think it is substantially that.

Senator ALLISON. Our naval people draw money all the time. We have an agency there, and in case a captain or a commodore goes out with a ship, as I understand—

Senator LODGE. He draws on London.

Mr. FORBES. He draws on the Seligmans in London, does he not?

Senator ALLISON. He has authority in his hands, a copy of which is sent to the Seligmans in London.

Mr. FORBES. Yes.

Senator ALLISON. He has authority to draw, say, £10,000, on his voyage, wherever he may be. A copy of that authority is sent to the Seligmans, and of course he can draw on them to that extent. If he needs more, he makes another requisition.

Senator BEVERIDGE. How would the burden be thrown on the Government? Suppose during one quarter the commercial rate was a certain rate, and during the next quarter it was a certain other rate?

Mr. FORBES. If there were any loss by exchange the laws should make it fall upon the Government.

Senator ALLISON. The exchange is paid by the Government; it becomes a matter of exchange. We have frequently made appropriations for loss of exchange.

Senator BEVERIDGE. That is, you pay what you owe, and in addition

to that you pay the exchange? Of course it can not be done the other way.

Senator ALDRICH. We do not want to make a rigid rate, do we?

Mr. FORBES. No; you do not want to do that. As long as you provide in some analogous way—whatever may suit your methods of official accounting—for the pay of the troops out there in a convenient local currency at a fair rate of exchange no officer or man will complain.

Senator BEVERIDGE. He pays the exchange?

Mr. FORBES. He does not pay the exchange. The rate of exchange is settled for him by the Government.

Senator ALLISON. But if he wants to send money home and not draw it out in the Philippines, there is an easy method provided?

Mr. FORBES. He is simply given his gold at home.

Senator LODGE. He simply sends a paymaster's draft?

Mr. FORBES. I suppose so.

Senator ALDRICH. The paymaster makes a draft. Instead of our sending any gold to the Philippines, the paymaster makes a draft for the amount on the Treasurer of the United States, or whoever he is authorized to draw upon. That draft is cashed by the local banking people at a given rate of exchange.

Mr. FORBES. Yes.

Senator ALDRICH. A rate fixed by the Government at Manila, if you please, or by the paymaster. It is immaterial who fixes it so long as it is fixed in a reasonable way. If the men want to send drafts home, as Mr. Allison says, they simply go to the banks or to the paymaster and get a draft on America at the same rate of exchange.

Mr. FORBES. No; then they get it in gold.

Senator LODGE. They get an absolute American draft.

Mr. FORBES. For so much gold. Then they have so much less to draw out there.

Senator BEVERIDGE. But, Senator Aldrich, how would the Government fix the rate of exchange?

Senator ALDRICH. Mr. Forbes suggested in his paper that the government of the Philippine Island should establish an arbitrary rate of exchange once a month.

Senator TELLER. Which they would probably do by negotiating with these banking houses.

Senator ALDRICH. Exactly.

Mr. FORBES. That is entirely a matter of government detail.

Senator ALDRICH. Yes; precisely. That is one of the things by which the rate of exchange could be governed.

Senator BEVERIDGE. Is it practicable for the Government to fix a rate of exchange?

Mr. FORBES. It is just as easy for the Government to fix a rate for paying the troops as it is for it to fix a rate for paying the Navy.

Senator BEVERIDGE. I am not familiar with these questions.

Mr. FORBES. The Navy has done it for years. You see, I am referring to an experience of forty years in talking about this matter of the Navy. There has never been any trouble at all there.

Senator BEVERIDGE. Suppose the rate of exchange was undergoing daily fluctuations while the Government had fixed it at a certain figure. What is not clear to me is how the Government would fix arbitrarily a rate of exchange which is governed by the general law of exchange.

Senator ALDRICH. The Government could certainly fix it for its own transactions.

Mr. FORBES. Hardly for all its own transactions, but it can fix it for the men, and fix it always favorably for the men.

Senator LODGE. Then, if there is a loss the Government bears it, and if there is a slight profit the Government gets it.

Senator ALDRICH. So that the Government does not change the rate of exchange at all; it simply makes up the difference?

Mr. FORBES. The Government makes up the difference if there is any.

Senator TELLER. The bank agrees to furnish the local money at such a rate; and there may be a change beneficial to the bank, and there may be one against it?

Senator BEVERIDGE. Yes; in which event they make it good.

Senator TELLER. The banks take the chances. They say, "For thirty days we will give such a rate of exchange."

Senator BEVERIDGE. And a man knows what he is going to get?

Mr. FORBES. Yes.

Senator TELLER. He knows just as the dealer knows. The dealer always goes to the bank before he makes the transaction.

Senator LODGE. He ascertains what his exchange will be for so many days.

Senator ALDRICH. I have no doubt that Mr. Forbes is exactly right in saying that this currency system which has been suggested to us arose out of the difficulties which have been encountered in exchange in the payment of troops.

Mr. FORBES. I can not find any other reason for it, Senator. I have not heard any other reason given.

Senator BEVERIDGE. In minting the silver dollar suggested by you, would you have it bear the same device as the American dollar, or would you have it bear another device?

Mr. FORBES. I should put the American eagle on one side and some Filipino device on the other.

Senator BEVERIDGE. That is the point.

Senator LODGE. That is what Mr. Townsend suggested.

Mr. FORBES. That is a matter of little importance; it is a matter of artistic detail.

Senator BEVERIDGE. On the contrary, is it not a matter of very great importance?

Senator LODGE. Mr. Townsend thought it was a matter of great importance that the British trade dollar was marked with the British arms on one side and bore a Chinese design on the other.

Senator BEVERIDGE. Is it not true, Mr. Forbes, that the British dollar has gained great credit and currency among the Chinese, first because they have learned its quality; and second, because they have come to identify its quality by the device upon it, so that when they see a coin of that device it goes?

Mr. FORBES. Yes.

Senator BEVERIDGE. Very well. So that, as a matter of fact, the device is an immense aid to the circulation of the dollar?

Mr. FORBES. There should be on the dollar some figures or characters in the native language which the natives will all understand. Just what those marks should be of course I do not feel competent to say; but there should be native devices on one side, and on the other side our arms, or something of the kind.

Senator LODGE. The British dollar passes by tale, does it not?

Mr. FORBES. The British dollar passes by tale; the Mexican dollar passes by weight.

Senator TELLER. I have a letter from Mr. Brush, one of the managing men of this American Smelter Company, in which he says he thinks it would be well to put a Chinese inscription on the coin.

Mr. FORBES. What would be the use of doing that if you are going to exclude Chinese from the Philippines?

Senator TELLER. We have not yet excluded them, have we?

Senator LODGE. Oh, yes; we have.

Senator TELLER. But there are still a lot of them over there?

Senator LODGE. Oh, yes.

Senator BEVERIDGE. Do you not think that if such a dollar as you suggest had on the reverse side, instead of a native character, a Chinese character, it would undoubtedly circulate not only in the islands but throughout China as well, according to the very well-known law—

Mr. FORBES. Of course it would. That is one of the things of which I have spoken—that the circulation of these dollars might become continuous with the circulation of the British dollars. There might be an agreement between the British Government and ourselves to let the British dollar come into the Philippines and to let ours be legal tender in Hongkong and the Straits. This would probably arrange itself in course of time, and it would make the whole currency of that part of the world more elastic.

Senator BEVERIDGE. That is the point; and it would thereby increase trade with the whole Orient?

Mr. FORBES. It would make trade movements easier; because then it would not matter, in Hongkong, or Singapore, or the Philippines, whether in payment of trade balances they exported the British dollar or the American dollar. The two would go side by side with perfect facility.

Senator BEVERIDGE. As a matter of fact, China itself has already absorbed something over four hundred million of those British dollars, has it not?

Mr. FORBES. I think Mr. Townsend said here lately that the Indian mints had coined in all only about one hundred and ten millions of these dollars. They coin them, I think, at an expense of 1 per cent.

Senator ALLISON. They charge 1 per cent?

Mr. FORBES. Yes; and they gave a very good coin.

Senator ALLISON. That is about the cost of coinage?

Mr. FORBES. The Mexican currency, I have heard, is coined at a cost of a half of 1 per cent.

Senator ALDRICH. The coinage charges, however, are from $3\frac{1}{2}$ to 4 per cent in Mexico.

Senator TELLER. The exact figures are 4.42.

Senator ALDRICH. Yes; that is my recollection.

Senator TELLER. I happen to know what it is. That charge is made because of the profit it yields the Government.

Senator ALDRICH. Why, yes; it is a large source of revenue to the Mexican Government.

Senator BEVERIDGE. It really is.

Mr. FORBES. Instead of being a dollar of 416 grains, 900 fine, which is the theoretical standard, the Mexican dollar as minted varies between 415 and 418 grains in weight and between 898 and 900 fineness.

Senator BEVERIDGE. Because of the greater reliability of the British dollar it is gradually taking the place of the Mexican dollar, is it not?

Mr. FORBES. A great deal; yes. When the troops were in north China they could not get Mexican dollars enough, and they sent for British dollars, which became current up there. That is a new field for them. They will stick in north China now; and that would probably be another field for our dollars if we should adopt this plan.

Senator ALLISON. I want to ask you now about another matter. There is still one question about this matter of coins. We have to deal with small coins as well as large ones, of course.

Mr. FORBES. Yes.

Senator ALLISON. Your experience in China was with "cash," I suppose?

Mr. FORBES. Copper cash.

Senator ALLISON. Is there any suggestion which you could make to us which would enable us to coin a very small coin, like a half cent? Have you anything in mind on that subject?

Mr. FORBES. I remember at one time, a good many years ago, just after the mint was started in Hongkong, they made Hongkong copper cash—very pretty small, round copper coins, with a square hole in the middle, so that they could be strung like the Chinese copper cash. But the Chinamen took them and used them for curiosities, and the experiment of introducing them into active circulation failed.

Senator ALLISON. Now, I want to ask you about another matter.

Mr. FORBES. I do not think you could make a coin as small as that, and I do not believe it is needed.

Senator BEVERIDGE. What is the smallest coin that is needed there?

Mr. FORBES. I should think if you could coin a half cent it would be quite sufficient.

Senator ALDRICH. Either you or somebody else made a suggestion—I think it is in one of your papers—which struck me with great force, to the effect that the Filipinos in the various islands were trading backward and forward in these small boats with their neighbors across the China Sea.

Mr. FORBES. They are doing a great deal of that trading, and nobody knows much about it. It does not appear to have been subjected to official control, and there are no statistics, as far as I can find out.

Senator ALDRICH. It would be necessary, if that trade increased, to have a coin with which the Chinaman or his neighbors as well as the Filipinos would be acquainted, would it not?

Mr. FORBES. Yes; they want a full-weight dollar. Take, for instance, the Moros in the Sulu Archipelago, the large island of Mindanao, and others which the Spaniards practically never touched and which we may hope to develop by dealing in the right way.

Senator TELLER. If we let them alone?

Mr. FORBES. If we let them alone as much as possible. They will probably take our money if it is good money.

Senator ALDRICH. If it is the money to which they are accustomed?

Mr. FORBES. Yes; but they would not take the token coins.

Senator ALDRICH. They would not be able to use them?

Mr. FORBES. They could not use them. They trade about with Borneo and all those places.

Senator ALLISON. Away down even to the Malay settlements, I suppose—all over, in fact?

Mr. FORBES. All over; yes. You can not tell where those men go. They land at little places with no custom houses to trouble them. The Spaniards hardly attempted to control them.

There is no statistical information to be gotten about that trade. An English merchant who had been trading for many years in the Sulu Archipelago told me, if I remember rightly, that the whole amount of exports and imports was only about two hundred and fifty thousand of our dollars a year.

Senator ALLISON. But it will grow?

Mr. FORBES. It will grow. The Spaniards helped to put an end to piracy among the Moros in the Sulu Archipelago. That had been their principal business. Since then I think they have been quite quiet.

Senator ALLISON. Are you familiar with our national banking system, Mr. Forbes?

Mr. FORBES. No, sir; I know little about it. I am not familiar with banking details.

Senator ALLISON. Something has been said about establishing banks over there.

Mr. FORBES. Yes, sir.

Senator ALLISON. Are you in a position to recommend anything at all on that subject? What sort of a bank would you advocate establishing over there, in the interest of our people as well as the interest of the Filipinos?

Mr. FORBES. You mean a bank of issue, I presume. The banks that would do business there would be principally either exchange banks, like the present English banks, or banks with Government deposits, or something of that sort.

Senator ALLISON. They already have one bank of issue there, the Spanish-Filipino bank.

Mr. FORBES. Yes.

Senator BEVERIDGE. Suppose we should establish a bank like the Hongkong and Shanghai Banking Corporation, with its main office in Manila? That is a bank of issue.

Mr. FORBES. No; its main office is not in Manila.

Senator BEVERIDGE. In Hongkong. I should say.

Mr. FORBES. Yes; in Hongkong.

Senator BEVERIDGE. Suppose we should take that, for example. What would you say as to the establishment there of an American bank like the Chartered Bank so far as issue is concerned, or the Hongkong and Shanghai Banking Corporation, with branches in China?

Mr. FORBES. I think, from what I do know about our national banking laws, and in view of the great strictness with which the Government very properly insists upon security for their circulation, that it might be very difficult to offer banks much inducement to issue notes out there. As far as that is concerned, simply from what I know about the people, I think it would be distinctly better for the insular government itself to issue paper currency.

Senator ALLISON. Of its own?

Mr. FORBES. Of its own, with the guaranty of the United States behind it.

Senator ALLISON. Redeemable in these Philippine coins?

Mr. FORBES. Redeemable in American-Filipino dollars. I think that would be a great boon to the people; and it would be better, I think, than establishing banks of issue.

Senator ALDRICH. Then you would confine the banking to exchange and deposit banking?

Senator ALLISON. The ordinary exchange banks?

Mr. FORBES. The ordinary exchange banks.

Senator BEVERIDGE. This last suggestion, on its face, would not be of any benefit to Americans trading in China. If a bank of issue on the same lines as the Chartered or Hongkong Bank were established in Manila, with proper safeguards, would it not offer the same facilities for exchange on drafts issued by the Government? In addition to that, with its branches around in China, such as the other banks have established and are establishing there, what would be its effect upon American merchants in the way of aiding their business and American trade in general?

Mr. FORBES. It would be very slight, I should think.

Senator BEVERIDGE. Very slight?

Mr. FORBES. Yes.

Senator BEVERIDGE. You do not think, then, that the establishment of the German banks throughout the Chinese Empire is of any particular benefit to German trade?

Mr. FORBES. I do not know.

Senator BEVERIDGE. And you do not think the Hongkong and Shanghai Bank is a benefit to British trade?

Mr. FORBES. The Hongkong and Shanghai Bank is a benefit to British trade, but not at all on account of its note issue. I understood you to speak of a bank similar to that.

Senator BEVERIDGE. I did speak of one along that line.

Senator LODGE. One which combined the exchange and the issue functions?

Senator BEVERIDGE. Yes.

Senator LODGE. You do not think the quality of issue is of any importance?

Mr. FORBES. I think it is of very small importance. The Hongkong Bank and the Chartered Bank, which are practically the only English banks that now issue notes in Hongkong and in Shanghai, have already issued the entire amount permitted by their charters. Mr. Townsend stated that the other day. I do not think they make much money out of the notes, and the notes do not go very far beyond the foreign settlements in actual practice.

Senator BEVERIDGE. Then, eliminating that feature, what do you think would be the effect of the establishment in the Philippines of one great American bank, with branches at the treaty ports in China?

Mr. FORBES. That might do a great deal more good.

Senator BEVERIDGE. So that the element of issue is not of much importance?

Mr. FORBES. No.

Senator BEVERIDGE. But the bank itself is.

Senator ALLISON. One large bank would be?

Mr. FORBES. One very large bank. Remember that the Hongkong and Shanghai Bank has a very large capital.

Senator BEVERIDGE. Its capital is ten millions, I understand.

Senator ALDRICH. Is it ten millions of pounds or dollars?

Mr. FORBES. Ten million dollars; it has half its capital in gold and half in silver.

Senator BEVERIDGE. It has a very large reserve, however.

Mr. FORBES. Yes; it has a very large reserve.

Senator BEVERIDGE. And its profits are enormous.

Mr. FORBES. It has grown from very small beginnings; its stock now stands at several hundred per cent premium. One large American bank there would be a great deal better than a dozen small ones.

Senator BEVERIDGE. Mr. Forbes, it is true that the German Bank is a branch of the Deutscher Bank in Berlin, is it not?

Mr. FORBES. I do not know.

Senator BEVERIDGE. I think I am correct about that.

Mr. FORBES. Well, it does not matter. You say the Deutscher Bank?

Senator BEVERIDGE. Yes. That is what it is called in Shanghai. It is establishing its branches at all the treaty ports; and the Russo-Chinese Bank, within the last two years, or three at the outside, has established very important branches at all of the treaty ports. Even now, Mr. Whitehead tells me, it has a very progressive branch at Hongkong.

Mr. FORBES. I hear that it has.

Senator BEVERIDGE. And he says that in Yokohama they are to have the finest and most substantial building in the whole city.

Senator LODGE. Of course, laying aside the question of issue, any great bankers in this country—Morgan & Co., or anybody else—could establish branches in the Philippines if they desired; and if there was money to be made they no doubt would do so.

Senator TELLER. They can do it now, can they not?

Senator ALDRICH. No; they can not do it now.

Senator LODGE. They can not do it now without a charter from somebody, but they can do it in that way.

Senator TELLER. They can get a charter from somebody, can they not?

Senator ALDRICH. No; under our law the insular government can not give any franchises.

Mr. FORBES. But surely any private individual, any private firm, can go out there and do a banking business as long as it does not issue notes.

Senator ALDRICH. I am not sure about that.

Senator LODGE. A private firm can do it.

Mr. FORBES. Yes; I should think a private firm could do it.

Senator LODGE. Possibly that is the case.

Senator BEVERIDGE. And deal in exchange, you mean?

Mr. FORBES. Yes; it could deal in exchange. What is to prevent it?

Senator ALDRICH. I do not believe it could.

Mr. FORBES. What is to prevent my depositing my money with any private individual I please?

Senator TELLER. And what is to prevent him from buying exchange?

Mr. FORBES. And selling his own bills?

Senator BEVERIDGE. It comes to be a question of magnitude. If you grow to the proportions of one of those two banks in Manila, the Government would have something to say to you as to exchange, for example.

But suppose, Mr. Forbes, that our Government should charter one bank only, and that bank should go into the Philippines and into China and the Orient generally under the charter of the United States,

with whatever prestige that would give to it, and do a business of exchange (not of issue), and become the fiscal agent of the Government in the Orient generally. Would that facilitate American business in the Orient and increase its influence there?

MR. FORBES. I should think it might. It might help to create what has never existed to any great extent—a direct current of exchange between the East and this country.

Senator ALDRICH. With New York?

MR. FORBES. With New York or San Francisco, as the case might be.

Senator BEVERIDGE. That is it. Now, that bank, in connection with the minting of the dollar you suggest and its circulation throughout that whole area, would have a very great effect?

MR. FORBES. I think so.

Senator TELLER. If you establish a bank over there with twenty millions of dollars, what are you going to do with your capital?

Senator BEVERIDGE. Loan it.

Senator TELLER. Can you loan it?

Senator BEVERIDGE. Yes; indeed you can.

Senator ALDRICH. You probably can not loan it in the Philippines at present, but when these restrictions are removed and they get the development of railroads, and soon it will be possible.

Senator BEVERIDGE. I understand it to be true—and Mr. Forbes will correct me if it is not—that the enormous profits which those banks over there make are derived entirely from exchange and loans.

MR. FORBES. Entirely from exchange and loans.

Senator BEVERIDGE. And they do not make the loans at a regular rate, but an irregular rate?

MR. FORBES. They make loans just as people make them every where else—according to the credit of the borrower.

Senator TELLER. To what class of people—the exporters?

Senator BEVERIDGE. And the Chinese merchants.

MR. FORBES. As to the rate of exchange, these banks have to cut it very closely, and I have often been surprised at the rates for commercial bills quoted by them, in view of the price of silver at the same time. Their profit lies in the small difference between their buying and selling rates.

Senator ALDRICH. Certainly.

Senator LODGE. Then you think, Mr. Forbes, generally speaking, that the thing to do in the Philippines on the coinage question is to establish a single silver standard?

MR. FORBES. A single silver standard.

Senator ALDRICH. Not to establish it, but to continue it?

MR. FORBES. To continue it.

Senator LODGE. I should have said to continue it.

Senator ALLISON. And to make them a good dollar?

MR. FORBES. To make them a full weight, good dollar.

Senator LODGE. That will circulate by tale, as the British dollar circulates?

MR. FORBES. Yes.

Senator ALDRICH. You would make that dollar legal tender in the islands?

MR. FORBES. I would make it legal tender in the islands, and melt down the Mexican dollars, or export them, and put them out of currency after a time. I would give time enough to call them in, so that nobody would lose.

Senator BEVERIDGE. Another question suggests itself, and then I think I have no more to ask. The banks of all nationalities in China at these treaty ports keep on hand as their reserve and balance a very large quantity of silver, either in bars or in Mexican dollars, as you know?

Mr. FORBES. Yes.

Senator BEVERIDGE. Now, if this bank of which we have been speaking should be established, and we also minted this oriental silver dollar, would not that fact, coupled with the fact that these banks keep on hand this large quantity of silver (as they are now doing), tend to give a very much broader circulation in China itself to the proposed silver dollar? Do I make my question clear?

Mr. FORBES. I think the disposition now in China is to increase the use of coins. I think they are getting more accustomed to foreign coins farther back in the country than in my day.

Senator BEVERIDGE. They are minting separate dollars themselves, are they not?

Mr. FORBES. I doubt whether this amounts to much. I remember, years ago, hearing of Chinese generals in the extreme west of China occasionally minting coins with which to pay their troops, and of course they made money out of it.

Senator BEVERIDGE. There are about eleven different kinds of Chinese dollars being minted now.

Senator TELLER. In different places?

Senator BEVERIDGE. In different places; but they are all failures, for the reason that they are not honest. The people do not credit them; that is the point. They do credit the British dollar, on the other hand, as a result of their experience with it. It goes on its merits.

Senator ALDRICH. Were you in the East, Mr. Forbes, when we tried our experiment with trade dollars?

Mr. FORBES. Yes; when it began, but they did not go into circulation at all. The natives would not have them for dollars.

Senator ALDRICH. It was on account of the difference in weight, I suppose?

Mr. FORBES. The difference in weight, as compared with every other dollar current, made them of no use.

Senator TELLER. We made them too heavy, you see.

Mr. FORBES. They were not wanted.

Senator ALDRICH. Was there any other reason? Still, you can not tell; that was a sufficient reason.

Mr. FORBES. That was a sufficient reason. They did not take the place of the Mexican dollar, and all the extra weight was thrown away.

The subcommittee thereupon adjourned.

ADDITIONAL STATEMENT OF FRANCIS B. FORBES.

NEW WILLARD HOTEL,
Washington, D. C., March 8, 1902.

To the SENATE COMMITTEE ON THE PHILIPPINES.

GENTLEMEN: I respectfully ask permission to amend the statement read by me on the 3d instant before your subcommittee on Philippine currency, and I beg that this letter may be placed on record as part of my testimony.

In the latter part of that document I drew your attention to the fact that there is no legal provision for paying persons in our military service abroad in anything but United States currency, whereas the Navy, from its foundation, has been conveniently paid in the local moneys of the various countries to which our men-of-war have been ordered.

I find, after careful inquiries at the War and Navy Departments, where I have received all courteous assistance from the Paymasters-General of the two services, that I was wrong in quoting Revised Statutes, section 1563, as authority for the actual practice in the Navy. This section refers only to the power of the President to direct advance pay to be issued to persons about to start on a long cruise in distant waters, as appears more clearly in section 3648, where, in substantially the same words, the President is authorized to order such advances to persons of the military as well as of the naval service.

The case for the Navy, however, turns out to be even stronger than I had supposed.

There appears to be no statute explicitly authorizing our naval commanders to pay their officers and men in the money of the country where they may happen to be stationed, and, most probably, what the exigencies of the service must have made a necessity from the first, has grown into a custom without direct legislation on this point. But this custom has received the most solemn sanction in each annual naval appropriation bill, where special provision has been made for "loss by exchange," which, as the naval Paymaster-General informs me, now amounts to a considerable sum of money.

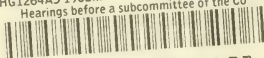
There is no corresponding provision in the army appropriation bills. Furthermore, the naval system of payment appears to be distinctly recognized by Revised Statutes, section 1550, providing that fiscal agents abroad "to receive and pay money for the use of the naval service on foreign stations" shall be appointed by and with the advice and consent of the Senate. The reference in the Revised Code to the Statutes at Large, as given to me by the Navy Department, goes back to June 17, 1846.

I have every reason to believe that I have at last got the correct explanation of this matter, and I am glad to feel that the point which I had endeavored to make is so clearly established.

I have the honor to be, gentlemen, your most obedient servant,

F. B. FORBES.

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